S. HRG. 98-329

EXPORT-IMPORT BANK FINANCING FOR SMALL BUSINESS

HEARING

BEFORE THE

SUBCOMMITTEE ON
EXPORT PROMOTION AND MARKET DEVELOPMENT

OF THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

EXPORT-IMPORT BANK FINANCING FOR SMALL BUSINESS

ST. PAUL, MINN.—SEPTEMBER 12, 1983

Printed for the use of the Committee on Small Business

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HEARING DATE

September 12, 1983:

Morning session 1

EXPORT-IMPORT BANK FINANCING FOR SMALL BUSINESS

MONDAY, SEPTEMBER 12, 1983

U.S. SENATE,
SUBCOMMITTEE ON EXPORT PROMOTION
AND MARKET DEVELOPMENT,
COMMITTEE ON SMALL BUSINESS,
St. Paul, Minn.

The subcommittee met, pursuant to recess, at 9:30 a.m., on the third floor, 300 Metro Square Building, St. Paul, Minn., Hon. Rudy Boschwitz (chairman of the subcommittee) presiding.

Present: Senator Boschwitz.

Staff present: Anne H. Sullivan, professional staff member, and Tim Bergan, legislative aid to Senator Boschwitz.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM THE STATE OF MINNESOTA, AND CHAIRMAN, SMALL BUSINESS COMMITTEE'S SUBCOMMITTEE ON EXPORT PROMOTION AND MARKET DEVELOPMENT

Senator BOSCHWITZ. Good morning.

As chairman of the Subcommittee on Export Promotion and Market Development of the Small Business Committee, I welcome all of you to this hearing on financing small business exports. As many of you know, financing is one of the real impediments to developing of small business exports—the idea of financing it and how to get paid. We have an excellent group of witnesses here this morning. We will be hearing from the State of Minnesota, the banking community, and also the small business community itself.

I am particularly pleased to have Sue Halverson here today representing the Minnesota Trade Office. I had hoped that Governor Perpich could come, but he is doing his own promotion abroad, and I admire him for doing that. Also, I was hopeful that Commissioner Dayton could be here. I spoke to him, and he has a foundation in which he is active and for some months had planned to be there today, out of the State, so that he was unable to attend today's hearing. However, we are very pleased to have Sue with us this morning.

Our balance of trade deficit was $42.7 billion in 1982, making a cumulative trade deficit of over $200 billion in the 5-year period from 1978 through 1982, and it is not getting any better. As a matter of fact, the Secretary of Commerce estimates that this year's trade deficit will be as high as $60 billion. Indeed, I have heard figures even higher than that.

When exports of services are included, the picture is somewhat better, but the imbalance in merchandise trade is still a cause for great concern. It certainly is contributing to the unemployment we have in this country.

During the same period, the total U.S. exports increased substantially, from $220 billion in 1978 to $375 billion in 1981. Those figures include services. We will refer to the charts as we go along on these.

Not surprisingly, jobs generated by exports decreased between 1981 and 1982. That decrease was a dramatic 20 percent, down from 6.2 million export-related jobs in 1981 to 4.9 million jobs in 1982. That is a very meaningful thing in this country. It is a large part of the reason we are holding these hearings and trying to get small business to be more active in the field of exports, because most of the ingenuity in our society, or much of it certainly, and much of the new employment come from small business. Therefore, we have to do what we can to promote exports in the small business area.

Last fall I held a hearing in Washington that focused on obstacles faced by small business exporters. One of the major obstacles we identified was the lack of adequate export financing. As a followup, I chaired another hearing in April that examined the small business export financing programs of the Export-Import Bank. To put it bluntly, Eximbank track record is dismal. In 1982, only 2.8 percent of Eximbank total available financing went to small businesses. And during the past 5 years, small businesses received only 3.4 percent of Eximbank total available financing.

As we deal with the Export-Import Bank in Washington, we always run into trouble in getting it reauthorized because it primarily deals with large lenders like General Electric; Boeing, which I think is the largest; Westinghouse; and also Lockheed. There is not much sympathy for lending money to those large firms. The feeling is that they should be able to find their own financing. Yet, they feel it very important, and it is very important if those companies are going to be able to compete on the world market. Even a couple of percentage points on the interest rate is extraordinarily meaningful, particularly when you get into those large sums.

Part of preserving the whole Export-Import Bank picture is getting small business more involved and broadening the political base of the Bank. It is not easy, I might tell you, to try to introduce an amendment to say that small business should get 10, 11, 12, 13, 14, or 15 percent of the lending capacity of the Export-Import Bank.

The large companies have been moving along pretty well with the Eximbank Bank and are not too concerned apparently about the authorization and the amount of the Eximbank Bank's authorization. They oppose my amendment, and, with some effect. We may find ourselves negotiating away from the 10 to 15 percent figures in order to preserve this and to get it passed in both the House and the Senate.

In any case, the provisions of my amendment are:

First, Eximbank must establish a small business set-aside for fiscal year 1984 equal to 10 percent of the direct loan, guaranteed

loan, and insurance levels provided in appropriations and authorizations acts. The set-aside will increase 1 percent for each fiscal year for the next 5 years until it equals 15 percent. This will increase small business export financing by more than $7 billion over the next 6 years. The increase will be over $7 billion, and that is very meaningful, indeed.

Second, the amendment directs Eximbank to establish a program that provides lines of credit or guarantees to consortia of local banks, export trading companies, small business investment companies, State financing companies, and/or export financing cooperatives. The consortia would use the lines of credit or guarantees to finance small business exports, which would count against the set-aside.

Third, Eximbank would be required to promote small business exports and its export financing programs in cooperation with the Department of Commerce, and the Department of Commerce, I might tell you, is not always so enthralled about getting small business into the act. It would also have to cooperate with the Small Business Administration and especially the private sector. The Eximbank would be required to promote in those areas. This is an integral part of the amendment because small business must be aware of the financing to take advantage of it.

Finally, Eximbank must report annually to Congress on the effectiveness of the set-aside, the small business financing programs, and Eximbank's efforts in promoting small business exports. This will give Congress the ability to monitor Eximbank's efforts and the progress in improving its track record with small business.

My amendment has bipartisan support in the Senate, with over 20 cosponsors. It has been endorsed by Commissioner Nichols here in the State, the Chamber of Commerce, the National Federation of Independent Business, Small Business United, the National Small Business Association, and the National Governor's Association. With the support of these organizations and my colleagues in the Senate, I believe that we are going to have pretty good luck with the amendment.

One other important aspect of the amendment is that it is cumulative. In the event the Eximbank does not hit the targets, and the targets are mandates, the moneys cannot thereby be lent to other large businesses in the next year. It has to be set aside for small business. It cannot be set aside for anybody else.

Once again, if Mr. Daniel Brian comes in this morning from the Norwest Bank, because he has a very tight schedule, and perhaps some of the others do also, we are going to hear from him just as soon as he comes in.

[The prepared statement of Senator Boschwitz follows:]

SENATOR RUDY
BOSCHWITZ
MINNESOTA

NEWS
RELEASE

September 12, 1983
IMMEDIATE RELEASE

CONTACT: TOM MASON
202-224-8448

BOSCHWITZ AMENDMENT WOULD GIVE $7 BILLION FOR SMALL BUSINESS EXPORTS

Holds Small Business Committee Hearing in St. Paul

Legislation authored by Senator Rudy Boschwitz that would earmark $7 billion in Export-Import Bank financing for small business exports was discussed at a hearing in St. Paul today. Boschwitz, a member of the Senate Small Business Committee, chaired the hearing.

The hearing is a followup to a similar meeting on Ex-Im financing chaired by Boschwitz in Washington D.C. in April.

The bill to reauthorize Ex-Im for 6 years myst be passed by September 30. Action by the full Senate is expected as early as this week.

A copy of Boschwitz' remarks and additional background material is attached.

SENATOR RUDY
BOSCHWITZ
MINNESOTA

NEWS
RELEASE

OPENING STATEMENT OF SENATOR RUDY BOSCHWITZ
HEARING ON EXPORT FINANCING
FOR SMALL BUSINESSES
St. Paul, Minnesota
September 12, 1983

Good morning! As Chairman of the Subcommittee on Export Promotion and Market Development, I welcome all of you to this hearing on financing small business exports. We have an excellent group of witnesses scheduled, and will be hearing from the State of Minnesota, the banking community and the small business community on this important issue.

I am particularly pleased to have Sue Halverson here today representing the Minnesota Trade Office. I had hoped that Governor Perpich would testify on the State's activity in promoting small business exports, but, of course, he is promoting Minnesota exports on his trade trip. In fact, I believe he has not yet returned from his trip. I would be interested in hearing a little about the purpose of the Governor's trip and if there has been any feedback yet. I had hoped to hear from Commissioner Dayton or Commissioner Nichols, but unfortunately neither of them could be here because of scheduling conflicts. Even so, I'm sure that the testimony we will hear today will be very informative and useful in coordinating efforts at both the state and federal levels.

Our balance of merchandise trade deficit was $42.7 billion in 1982 -- making a cumulative trade deficit of over $200 billion from 1978 through 1982. And, it's not getting any better. The Secretary of Commerce estimates that this year's merchandise trade deficit could be as high as $60 billion. When exports of services are included, the picture is somewhat better, but the imbalance in merchandise trade is still a cause for concern.

During the same time period, total U.S. exports increased substantially -- from $220 billion in 1978 to $375 billion in 1981. This is a 70% increase over those 4 years. But, in 1982, total U.S. exports declined by 8% to $342 billion. The world-wide recession and strength of our dollar certainly contributed to this decline, but the lack of adequate financing was also a big factor.

Not surprisingly, jobs generated by exports decreased between 1981 and 1982. The decrease was a dramatic 20% -- from 6.2 million export-related jobs in 1981 to 4.9 million in 1982. Without question, increasing our exports -- especially by small businesses that create the most jobs -- will improve both our balance of trade picture and our unemployment situation.

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Last fall I held a hearing in Washington that focused on obstacles faced by small business exporters. One of the major obstacles we identified was the lack of adequate export financing. As a follow-up, I chaired another hearing in April that examined the small business export financing programs of the Export-Import Bank. To put it bluntly, Ex-Im's track record is dismal -- in 1982, only 2.8% of Ex-Im's total available financing went to small businesses. And, during the past 5 years, small businesses received only 3.4 percent of Ex-Im's total available financing.

To remedy this situation, I introduced an amendment last May that will require Ex-Im to do more business with small businesses. As it currently stands, my amendment would make an additional $7 billion of export financing available to small businesses, without increasing Ex-Im's budget. Instead of giving Ex-Im more money to spend, my amendment requires Ex-Im to allocate to small businesses a minimum percentage of the spending authorized by Congress each year. The amendment is needed now because the underlying legislation extends Ex-Im's charter for six years. So, if we don't act now, we may not have another opportunity before 1989. I think this hearing is timely because Ex-Im's charter expires September 30th and the Senate will act on my amendment in the comming weeks.

Now, I will briefly describe the provisions of my amendment.

First, Ex-Im must establish a small business setaside for FY84 equal to 10 percent of the total direct loan, guaranteed loan and insurance levels provided in appropriations acts. The setaside will increase 1 percent for each fiscal year for the next 5 years until it equals 15 percent. This will increase small business export financing by more than $7 billion over the next 6 years.

Second, the amendment directs Ex-Im to establish a program that provides lines of credit or guarantees to consortia of local banks, export trading companies, small business investment companies, state financing companies and/or export financing cooperatives. The consortia would use the lines of credit or guarantees to finance small business exports, which would count against the setaside.

Third, Ex-Im would be required to promote small business exports and its export financing programs in cooperation with the Department of Commerce, the Small Business Administration and especially the private sector. This is an integral part of the amendment because small business must be aware of the financing to take advantage of it.

Finally, Ex-Im must report annually to Congress on the effectiveness of the setaside, the small business financing programs and Ex-Im's efforts in promoting small business

more

exports. This will give Congress the ability to monitor Ex-Im's efforts and the progress in improving its track record with small business.

My amendment has bypartisan support in the Senate -- with over 20 cosponsors. It has also been endorsed by Commissioner Nichols, The Chamber of Commerce, the National Federation of Independent Business, Small Business United, the National Small Business Association and the National Governors' Association. With the support of these organizations and my colleagues in the Senate, I believe that the amendment will be successful. With these thoughts in mind, I look forward to hearing the testimony of the witnesses.

SMALL BUSINESS EXIM BANK AMENDMENT
-Fact Sheet-

Setaside Percentages

	Setaside Percentage
FY1984	10%
FY1985	11%
FY1986	12%
FY1987	13%
FY1988	14%
FY1989	15%
FY1990	15%

A setaside is required based on the aggregate level of direct loans, guaranteed loans and insurance provided in annual appropriations acts for FY1984-FY1990. Small businesses can participate in the setaside program even if they were not turned down for export financing by other federal agencies.

Financing Consortia Program

EXIM must develop a program to provide lines of credit or guarantee to any combination of small- and medium-sized banks, export trading companies, state finance companies, export financing cooperatives or other export financing institutions. The consortia would use the line of credit or guarantee to finance small business exports. The costs and responsibilities for processing, servicing and credit evaluation would be shared by the consortia and EXIM. Exports financed by the program would count against the setaside.

Promotional Activities of EXIM

EXIM would be required to promote small business exports and its small business export financing programs in cooperation with the Department of Commerce, the Small Business Administration (to coordinate and supplement SBA's Office of International Trade established by P.L. 96-481), and especially the private sector. EXIM should especially work with small business organizations, state agencies, chambers of commerce, banking organizations, export management companies, export trading companies and private industry.

Report to Congress

EXIM's annual report to Congress would include a report on the setaside program, the consortia program, the number and dollar volume of loans, guarantees and insurance commitments made with small business and recommendations for getting small- and medium-sized banks more involved. The report would have to be transmitted to the Small Business Committee.

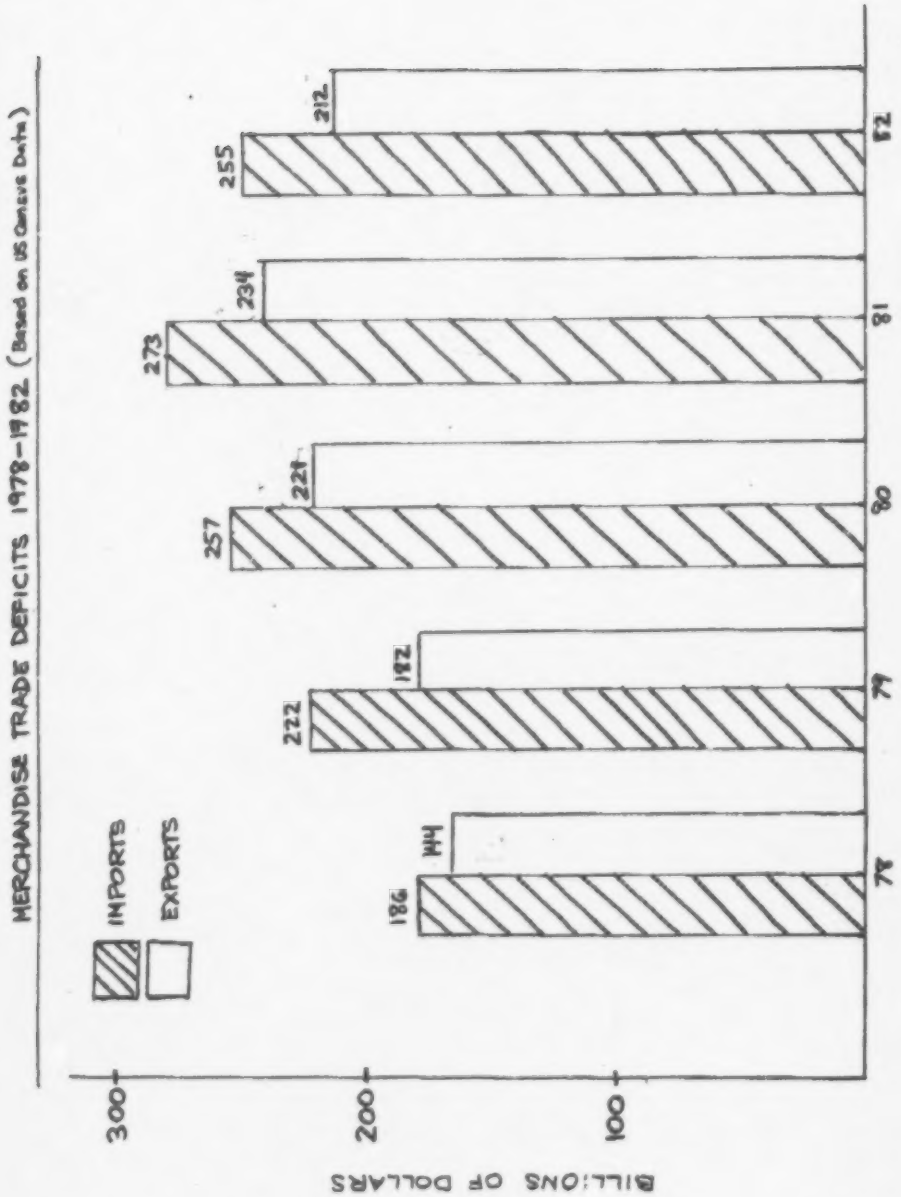
SMALL BUSINESS PARTICIPATION
IN EX-IM FINANCING
1978-1982

	Total Financing Available (Billions)	Actual Financing Commitments (Billions)	Commitments to Small Business (Billions)	Small Business as a Percentage of Actual Commitments	Small Business as a Percentage of Total Available
1978	$11.625	$ 7.376	$ 0.341	4.6%	2.9%
1979	12.146	9.491	0.393	4.1%	3.2%
1980	12.523	12.609	0.545	4.3%	4.3%
1981	13.520	12.854	0.493	3.8%	3.6%
1982	13.620	9.348	0.386	4.1%	2.8%
Total	$63.434	$51.678	$ 2.158	4.2% (Average)	3.4% (Average)

EX-IM FINANCING AVAILABLE TO SMALL BUSINESS UNDER BOSCHWITZ AMENDMENT

	FY83	FY84	FY85	FY86	FY87	FY88	FY89
Total Authorization (Billions) (Assumes Constant FY84-FY89)	13.4	13.4	13.4	13.4	13.4	13.4	13.4
Boschwitz Amendment (Millions)	N/A	1340(10%)	1474(11%)	1608(12%)	1742(13%)	1876(14%)	2010(15
Current (3.4% average)		456	456	456	456	456	456
Increase Over Current Level Due to Boschwitz Amendment	N/A	884	1018	1152	1286	1420	1554

Total Increase in EX-IM Financing Available to Small Business Under Boschwitz Amendment Over Next Six Years — $7.314 Billion



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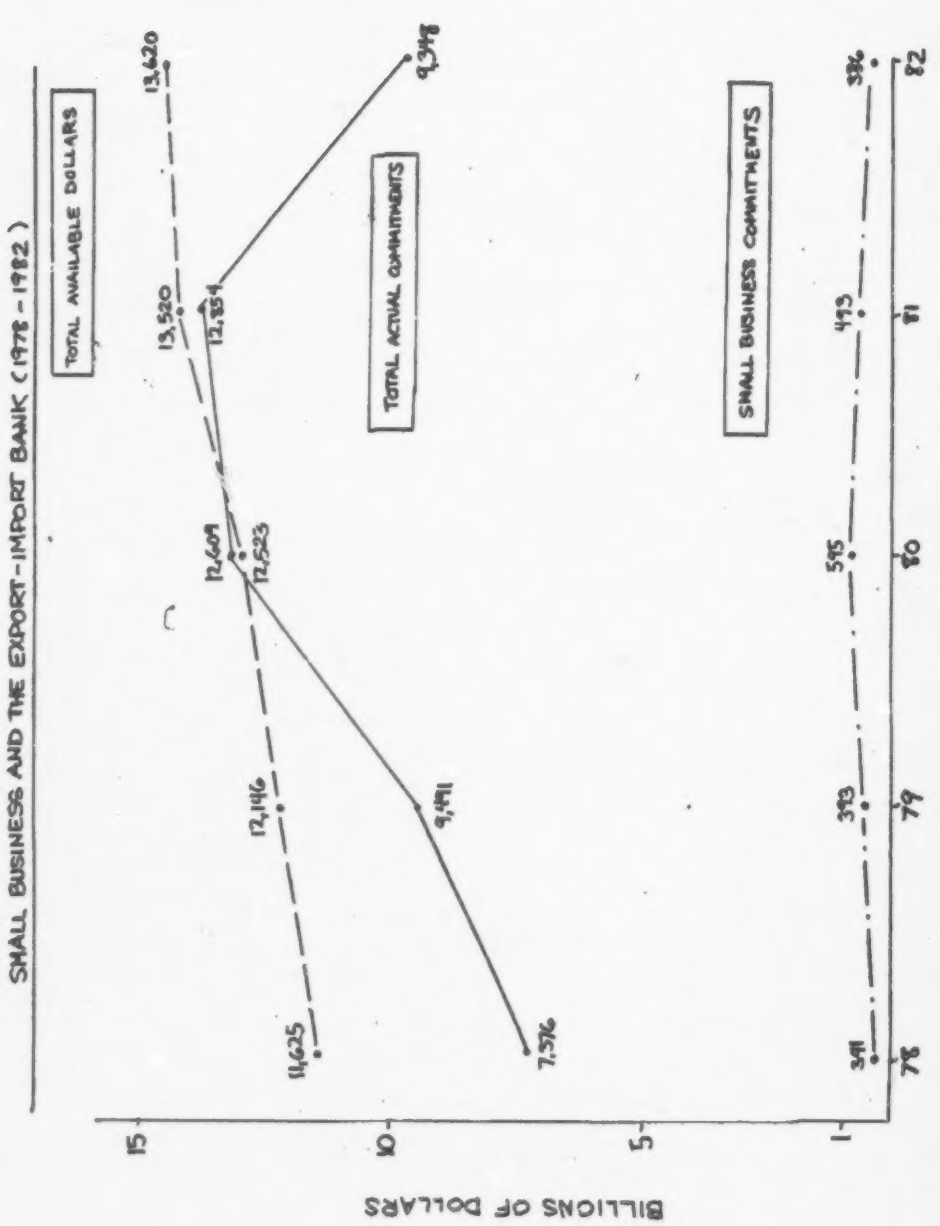

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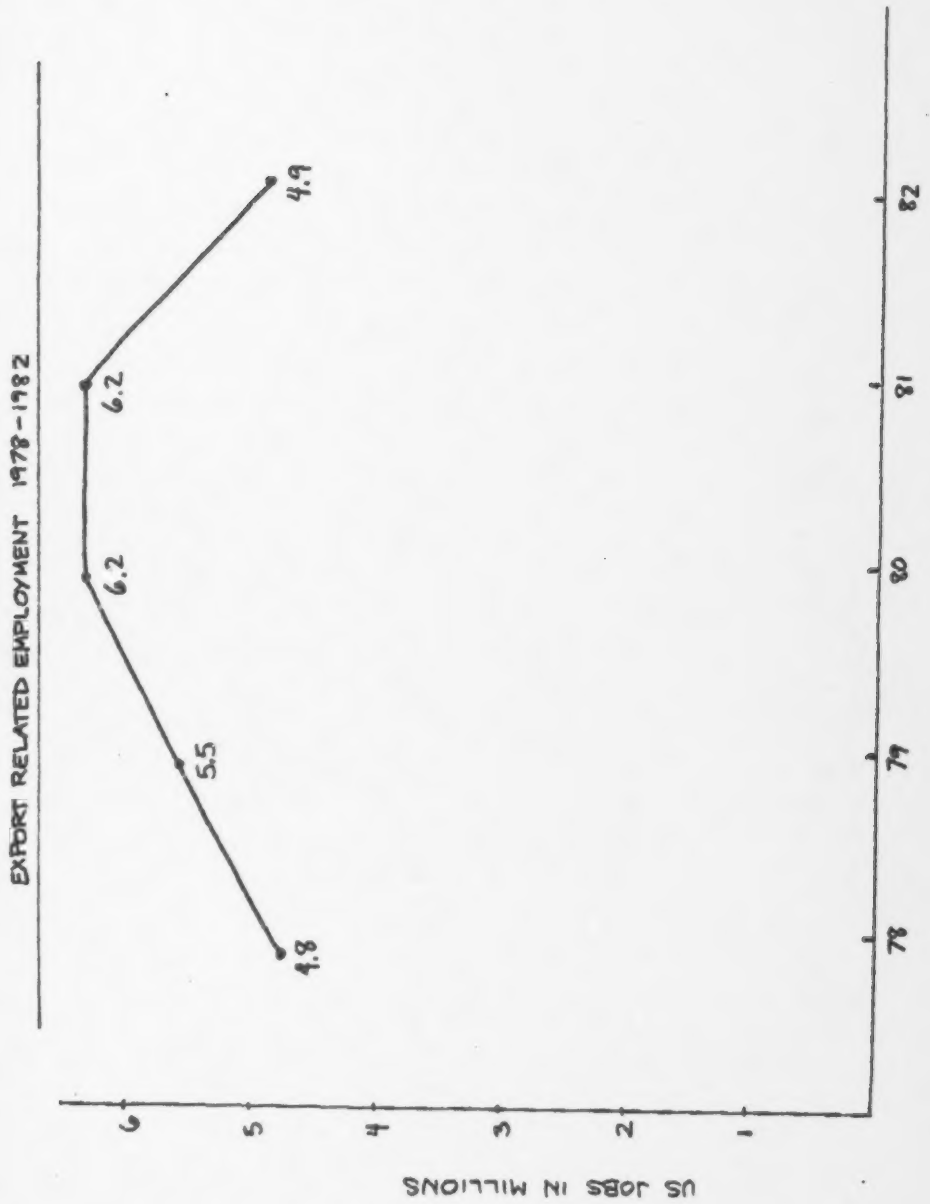

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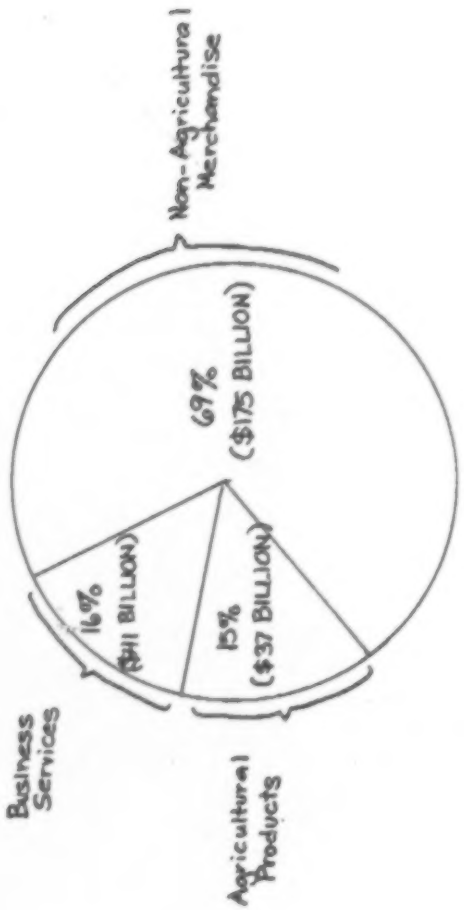
25-696 O—83——3

COMPONENTS OF U.S. EXPORTS – 1982

(Based on US Dept. of Commerce Balance of Payments Data)



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ENDORSEMENTS FOR
BOSCHWITZ SMALL BUSINESS AMENDMENT

National Small Business Association
Small Business United
National Federation of Independent Business
United States Chamber of Commerce
National Governors' Association
Mr. Jim Nichols, Commissioner, Minnesota Department of Agriculture

Minnesota State Department of Agriculture
90 West Plato Boulevard, St. Paul, Minnesota 55107

OFFICE OF THE COMMISSIONER

Telephone: (612) 297-2200

June 22, 1983

The Honorable Rudy Boschwitz
Attention: Timothy N. Bergan
506 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Boschwitz:

Through the courtesy of Douglas E. Swenson, Vice President and Treasurer of MITCO International, Inc. I have reviewed your filing statement and proposed amendment to S.869, the Export-Import Bank Bill.

My compliments on your advocacy and support for a fairer crack at the export market for American small business enterprise. Credit extension is vital.

Your amendment has my enthusiastic support because we here in state government know the importance of small business in providing jobs and new economic activity. Small business is the seed crop that grows into big business.

Give this amendment your best shot, Rudy. Minnesota small business development needs it. Our national economy needs it.

Sincerely,

MINNESOTA DEPARTMENT OF AGRICULTURE

Jim Nichols

Jim Nichols
Commissioner

JN:jh
cc: Governor Rudy Perpich
Douglas E. Swenson

AN EQUAL OPPORTUNITY EMPLOYER

[From the Congressional Record, pp. S10634-S10635, July 21, 1983]

EXPORT-IMPORT BANK SMALL BUSINESS AMENDMENT

Mr. BOSCHWITZ. Mr. President. I am pleased to announce that my amendment to S. 869, the Export-Import Bank amendments, is gaining much support. To date it enjoys the bipartisan support of 19 Senators, along with that of the U.S. Chamber of Commerce, the National Federation of Independent Business, Small Business United, the National Small Business Association, and the National Governors Association.

This amendment is sorely needed. With our Nation experiencing record trade deficits, we in government can no longer sit idly by. We must act now to reduce those trade deficits. One way to reduce those deficits is to help small businesses become better able to export their products.

According to the Commerce Department, at least 20,000 businesses in the United States could export but do not. In fact, only 1 percent of American manufacturers account for 80 percent of American exports. There is great potential in the untapped area of small business exports. This amendment would help small business expand into the export market.

My amendment would require Exim to actively finance small business exports. By providing small business with the access to export financing that is needed during the next 6 years and beyond, we should be able to lower these large trade deficits.

I urge my colleagues to study this amendment and to join with us in supporting it when the Export-Import Bank bill is considered by the Senate. I also ask that the letters from the organizations referred to earlier be printed in the Record.

NATIONAL SMALL BUSINESS ASSOCIATION,
Washington, D.C., July 18, 1983.

Hon. RUDY BOSCHWITZ,
U.S. Senate, Washington, D.C.

DEAR SENATOR BOSCHWITZ: The National Small Business Association (NSB) strongly supports your proposed amendment to the Ex-Im bank reauthorization, calling for a definite set-aside of their appropriated funds for small business.

We supported similar legislation on the House side and feel very strongly that only by a forthright commitment of funds, as provided for in your amendment can we hope to increase small business participation in the export market.

We are unalterably opposed to any effort to provide a "trigger mechanism" to your set-aside amendment, such a trigger would emasculate the set-aside and provide a disincentive for early commitment of funds to small business.

If we are truly interested in utilizing the vast capabilities of this country's small business community in attempting to reverse our imbalance of trade, we must take honest and sincere steps to assisting small business participation. Your proposed amendment does just that and we congratulate you on this effort.

Sincerely,

JEROME R. GULAN,
Vice President, Government Affairs.

SMALL BUSINESS UNITED,
Waltham, Mass., July 14, 1983.

Hon. RUDY BOSCHWITZ,
U.S. Senate, Washington, D.C.

DEAR SENATOR BOSCHWITZ: Small Business United, a coalition of 16 regional, state and metropolitan trade associations, representing more than 60,000 small businesses nationwide, enthusiastically supports your amendment to the Ex-Im Bank Authorization bill creating a small business set-aside.

We support the use of a set-aside only when it is clear that there is no other practical, monitorable means of assuring small business access to the financing programs available to other businesses. We believe this to be the case with respect to Ex-Im Bank financing programs.

Your amendment, which includes requirements that the Bank actively market the set-aside program, provides a fair, equitable way for small business to have access to much needed export financing.

Sincerely,

G. THOMAS CATOR,
Washington Counsel.

NATIONAL FEDERATION OF INDEPENDENT BUSINESS,
Washington, D.C., July 18, 1983.

Hon. RUDY BOSCHWITZ,
U.S. Senate, Washington, D.C.

DEAR RUDY: NFIB is pleased to note your intention to amend S. 869, the Export-Import Bank reauthorization, so that small businesses could become more involved in exporting. You and your Senate colleagues are to be commended for taking the lead in this area.

We share your conviction that small firms can and should participate more in efforts to improve our country's balance of trade through increased exporting. The Department of Commerce estimates that there are 20,000 small manufacturers with the capability to export, that don't. In addition, with the increased effort to encourage exporting in the service industries, small firms would be able to make a significant contribution to that endeavor. Without some encouragement and assistance, their potential and the jobs they can create will never be realized. Over the years, NFIB has been disappointed that the Eximbank has made little effort to realize small business' export potential.

For these reasons, NFIB is particularly glad to see your own work in this area. While we were interested by the Banking Committee's acceptance of two amendments aimed at directing the Eximbank to address the needs of small business, we think the time to actively deal with the real financing needs of small firms is long overdue. The set aside figures proposed in your amendment are well within the export capabilities of small business without jeopardizing access to the Bank by large, multinational corporations. They are already doing all the business they can overseas and do not have much potential for increasing their present activity. Smaller businesses *must* be encouraged to export on their own and not simply participate as suppliers and subcontractors for industrial giants.

We know you and your colleagues Senators Mattingly, Sasser, D'Amato, Dixon and Glenn have put a great deal of effort into preparing your amendment. NFIB feels that this is an important first step in encouraging more small businesses to export. We look forward to working with you to get Senate acceptance of your amendment.

Sincerely,

JAMES D. "MIKE" MCKEVITT,
Director of Federal Legislation.

THE COUNCIL OF SMALL BUSINESS,
Washington, D.C., July 18, 1983.

Hon. RUDY BOSCHWITZ,
U.S. Senate, Washington, D.C.

DEAR SENATOR BOSCHWITZ: The U.S. Chamber supports renewal of the charter of the Export-Import Bank with amendments that will strengthen the Bank and make it a cornerstone of a forward-looking trade policy for the United States.

Among such amendments there should be changes in the way the Bank deals with smaller exporters so as to assure small business access to Eximbank programs.

In particular, the Chamber supports four concepts:

(1) A mandate that not less than six percent of the dollar amount of the Bank's loans guarantees be made to small business concerns in FY '84, and 10 percent in FY '85.

(2) A goal of 10 percent in FY '84 and 20 percent in FY '85 for small business loans and guarantees.

(3) A yearly, detailed report to Congress on Eximbank's plans to implement small business requirements for the following year, and its record of small business lending for the past year.

(4) A requirement to expand Eximbank's relationship with commercial banks to include regional and local banks in its discretionary lending program.

While the U.S. Chamber has strong reservations about the concept of set-asides in general, it recognizes the importance of providing a tangible way to measure the Bank's progress in opening its programs to small business exporters.

These provisions are essential to the successful integration of smaller exporters into Eximbank's loan and guarantee programs. Any effort to weaken these provisions (i.e. adding a "trigger mechanism" to return unused funds that have been set aside for small business to general loan and guarantee programs) would threaten small business access, and therefore would be opposed by the Chamber.

These concepts are embodied almost totally in the amendments you have proposed.

We appreciate the leadership you are providing small business in this important legislative debate, and we are ready to work with you and your staff to assure that the needs of small exporters will be met in a rechartered Export-Import Bank.

Cordially,

IVAN C. ELMER,
Manager, Small Business Center.

GOVERNORS BACK BOSCHWITZ SMALL BUSINESS AMENDMENT

The National Governors' Association today endorsed Senator Rudy Boschwitz's small business exports amendment to the Export-Import Bank bill.

Thompson joins a bipartisan group of 17 Senators, the United States Chamber of Commerce, the National Federation of Independent Business, Small Business United and the National Small Business Association in supporting this amendment. Governor Jim Thompson (R-Illinois), incoming Chairman of the National Governor's Association, will visit Boschwitz on July 19 to discuss the amendment.

The Boschwitz amendment would:

Require the ExIm Bank to use at least 10 percent of its funding to finance small business exports;

Provide guarantees or lines-of-credit to small and medium-sized financial institutions so that they may bank together to finance small business exports;

Promote small business exports and its small business exports programs in order to let small businesses become aware of the help available to them; and

Report its efforts annually to Congress.

"We are all aware of the contributions small business makes to the economy in terms of jobs and innovative technology. Small business can also be the leading contributor in U.S. exports if competitive export financing is available," Boschwitz said.

According to Boschwitz, "The Commerce Department estimates that at least 20,000 businesses in our country could export, but do not. In fact, only 1 percent of American manufacturers account for 80 percent of the exports. As we face record trade deficits, it is imperative that small businesses become more active exporters. Because ExIm is the primary federal export finance agency, small businesses must be allowed adequate, effective participation in its programs."

Action on this amendment could come up as early as this month.

NATIONAL GOVERNORS' ASSOCIATION,
Washington, D.C., July 20, 1983.

Hon. RUDOLPH E. BOSCHWITZ,
U.S. Senate, Washington, D.C.

DEAR SENATOR BOSCHWITZ: I commend you on the excellent legislation you have sponsored to expand the Export-Import Bank's financing assistance for small businesses.

As Chairman of the International Trade and Foreign Relations Committee of the National Governors' Association, I can tell you the Governors are convinced there is great potential for expanding the export of U.S. produced goods and services, particularly with our smaller businesses. The U.S. Commerce Department estimates that 20,000 small businesses, who are not presently exporting, could profitably export their products and services and thereby create a significant number of new jobs here in the United States.

The National Governors' Association endorsed and worked for three years on export trading company legislation because of the new export opportunities it presented, particularly for smaller and new-to-export businesses. The Governors have also been enthusiastic supporters of the Export-Import Bank, and have actively opposed efforts over the past two years to reduce the Bank's lending authority. We

have also taken the position that the Bank's program for small businesses need to be expanded and procedures simplified.

After an extensive study of numerous impediments to exporting, the National Governors' Association came to the following conclusions about Eximbank and small businesses:

While these (Eximbank) programs have proved quite helpful to many exporters, there remains a need for procedural simplication and targeted aid to small businesses.

States are particularly sensitive to the special needs of smaller businesses, which often find the "tooling-up"costs associated with export activity prohibitive. At a state level, such businesses may constitute a significant percentage of potential new exporters. * * *

To the extent possible, credit should be extended automatically to small businesses, provided there is endorsement by the businesses' local credit institution.

(The National Governors' Association Policy Positions 1982–1983.)

The small business amendments to the Ex-Im bill, including the set-aside for small business, simplified procedures, representation on the Ex-Im Advisory Committee for small business, a mandate for Ex-Im to work with more local and regional banking institutions, and a mandate for Ex-Im to promote its small business programs should result in the creation of many new jobs here in the United States.

If the other Governors or I can be of any assistance on this important issue, please let me know.

With warm regards,

Gov. BOB GRAHAM,
Chairman, International Trade and Foreign Relations Committee.

Senator BOSCHWITZ. We will begin with Sue Halverson, who is Special Assistant Attorney General, representing the Minnesota Trade Office.

Sue, do you have a prepared statement?

STATEMENT OF SUE HALVERSON, SPECIAL ASSISTANT ATTORNEY GENERAL, REPRESENTING THE MINNESOTA TRADE OFFICE, ST. PAUL, MINN.

Ms. HALVERSON. Yes; I do.

Senator BOSCHWITZ. Do we have enough copies for our guests or do you have just a very few copies?

Ms. HALVERSON. No; I brought 25 copies.

Senator BOSCHWITZ. We will get the copies and pass them out.

Are you going to summarize this?

Ms. HALVERSON. Yes.

Senator BOSCHWITZ. We will accept the entire statement for the record without objection, if you would summarize it. However, if you need to read the entire thing, do not hesitate to do that, either.

Ms. HALVERSON. Thank you, Senator Boschwitz. I would like to thank you, also, on behalf of William Detrich, the director of the Minnesota Trade Office, who is today completing the European trip with Governor Perpich.

Small business exports are clearly important to Minnesota. Although exports are the fastest growing segment of Minnesota's economy, only 14 percent of Minnesota's manufacturers now export. Most of those exporters are small businesses. Almost 40 percent of Minnesota's exporters employ fewer than 30 persons. Further, Minnesota businesses are relatively new to export. Nearly 30 percent have been exporting only 4 years or less, and a considerable proportion has been exporting for less than 2 years.

Exporting is also very significant to the agricultural sector of Minnesota's economy. Minnesota ranks fifth nationally in total agricultural exports. Although agricultural exports declined signifi-

cantly in 1982, gains were made in two market segments: vegetable processing increased 22 percent and dairy product exports increased 86 percent. Both of these increasing market segments offer opportunities to small- and medium-sized businesses.

In order to penetrate world markets and maximize export potentials, small businesses and agricultural producers need two types of assistance. First, they need information and promotion which will give them access to the world trading network. Second, financial resources must be made available on terms which will allow them to compete in the international marketplace.

The State of Minnesota is making considerable effort to provide information and to promote exports. For many years the State of Minnesota has been a pioneer in agricultural promotional efforts through the Minnesota Department of Agriculture.

As a result of Governor Perpich's initiatives and new legislation in 1983, the international trade development activities of the Department of Agriculture have been expanded through the creation of the Minnesota Trade Office.

The Minnesota Trade Office combines the role of promoting the State's agricultural products with development and promotion of international trade for manufactured goods. The trade office represents a vastly expanded effort by the State in the international trade area.

The Minnesota Trade Office is divided into four sections:

First, the Agricultural Marketing Division promotes Minnesota food products both domestically and internationally.

Second, the International Trade Division promotes Minnesota manufactured products and services. The division also works with foreign companies which desire to invest or locate in Minnesota.

Third, the export information office gathers and disseminates information on Minnesota products, foreign trade leads, and international trade service organizations.

Fourth, the Minnesota Export Finance Authority administers a program to provide financial assistance to small businesses for their preexport credit needs.

The Minnesota Trade Office has numerous programs and services designed to assist Minnesota exporters in accessing the world trade network and obtaining financing for their export sales.

The agency organizes trade missions and trade shows and conducts several volunteer programs. One is a volunteer program of international bankers, lawyers, sales managers, and retired business executives which consult with small businesses on specific export problems.

A similar program, the Big Brother Program, teams experienced exporting companies with fledgling companies to enable the new-to-export business to take advantage of the experience of more involved exporting companies.

The trade office also operates the MINNEXPORT program. This is a program for identifying companies which have products suitable to exporting. The products are then premarketed, and company representatives are taken on highly structured trade missions to meet prescreened distributors and potential users in several countries.

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The export information office is conducting an extensive education program tailored to the particular needs of Minnesota's small business exporters and potential exporters. Presentations are arranged based upon the specific needs which have been identified through visits with Minnesota businessmen. For example, we have had sessions on international patent law, Canadian specifications for imported electrical products, and we are now working on a seminar to familiarize small bankers with the needs of their exporting customers who are seeking to enter the export market.

The information office is also working with the State's institutions of higher education to determine curriculum and course offerings which might be suitable to the institutions and responsive to the needs of Minnesota businesses.

In the future the Minnesota Trade Office will provide extensive information services. There will be a trade lead information data base which will initially be derived from the U.S. Department of Commerce trade leads, and later will be augmented by trade leads generated by Minnesota Trade Office staff.

Publications such as service directories and directories of Minnesota products will also be prepared and distributed.

In addition to the Minnesota Trade Office, the 1983 legislature also created two study commissions relating to the development of international trade. First, the World Trade Center Commission was appointed to study the feasibility, development, cost, and financial commitment which would be required for a Minnesota World Trade Center. That commission will report to the legislature and the Governor by January 15, 1984.

A second commission to study the feasibility of a school of international business in Minnesota will submit its findings and recommendations to the Governor by January 1, 1984.

In addition to these institutional efforts, there are numerous individuals, such as Governor Perpich, who have taken significant personal efforts to promote international trade. Governor Rudy Perpich and a delegation of legislative leaders are today completing a 3-week trip throughout Europe where they have made trade contacts and studied the peat industry of northern Europe. Arrangements have been made for Minnesota to organize a trade office in Stockholm, Sweden, which will operate for a 9-month trial period. These efforts make Minnesota the first State to have a trade office in Scandinavia.

It is clearly the policy of both the legislative and executive branches to encourage and develop commerce with foreign countries and remove any trade barriers arising from lack of information or lack of financing.

The State of Minnesota has made specific efforts to assist in financing exports. The Minnesota legislature has appropriated the sum of $2 million to be used to guarantee or insure loans to small businesses which are new to export or small to export. MEFA loan guarantees may be used exclusively for preexport credit. The loan guarantees are limited to the sum of $250,000 per borrower.

Senator BOSCHWITZ. Who is the borrower, the importer or the exporter?

Ms. HALVERSON. The borrower would be exporters.

Senator BOSCHWITZ. The exporters would be the borrowers.

Ms. HALVERSON. Yes. It is strictly for preexport credit needs.

It is contemplated that the foreign credit risk following shipment of the goods will be covered by traditional sources, such as the U.S. Export-Import Bank and Foreign Credit Insurance Association.

Administrative expenses of the MEFA loan guarantees will be met with appropriations from the general revenue fund. Thus, the $2 million reserve account is available solely as security for loan guarantees or other forms of financial assistance. The reserve account may be leveraged up to four times, thus enabling the MEFA to make guarantees up to $8 million.

MEFA has conducted preliminary discussions with the Eximbank and the Minnesota District Office of the Small Business Administration to determine possible areas of cooperation and mutual assistance. Three types of things have been discussed:

First, MEFA would like to facilitate the loan guarantee programs currently operated by the Eximbank and by the SBA.

Second, MEFA is seeking a grant of authority from the Eximbank and SBA to allow MEFA to extend or commit those Federal agencies to participate in MEFA loan guarantees.

Third, MEFA is seeking training programs for its staff and board members to be conducted by the Eximbank and/or SBA staff.

Both the Eximbank and SBA have indicated that a primary difficulty they experience in processing applications for export loan guarantees is the inadequacy of information provided by applicants. MEFA is proposing to facilitate these programs by assisting Minnesota applicants in preparing and submitting the necessary information to the Federal agencies.

MEFA also proposes to counsel potential Minnesota exporters on the available Federal and State programs and to assist in determining the exporter's eligibility for the respective loan guarantee programs. MEFA would then assist with the loan application process and make sure that the information submitted to Federal agencies is complete, so as to allow expedited processing.

Where an exporter does not qualify for either the Eximbank's loan guarantee or the SBA program, MEFA would consider issuing its own guarantee to support the financing.

The arrangements which MEFA is proposing would help avoid duplication and overlap in State and Federal programs and would funnel applications to the most appropriate program. Because MEFA would assist in preparing the loan guarantee applications, administrative costs and processing time at the Eximbank and SBA should be minimized. In turn, the MEFA is seeking a commitment from those Federal agencies to process Minnesota applications in an expeditious manner.

MEFA is also proposing a second type of cooperative program to Eximbank and SBA. MEFA is seeking participation by Eximbank and SBA in the loan guarantees which will be made by MEFA.

Under this type of guarantee participation authority, MEFA would perform loan workup and analysis, documentation, and loan administration. This arrangement would substantially reduce the staffing needs and the direct costs of administration to the Eximbank and SBA. Those Federal agencies can benefit from the outreach and delivery systems which are already being developed by the Minnesota Trade Office.

The amendments proposed by Senator Boschwitz to the Export-Import Bank Act of 1945 would stimulate and facilitate the type of cooperative proposals which MEFA is pursuing. Minnesota Commissioner of Agriculture Jim Nichols has indicated his support for the amendment.

The Minnesota Export Finance Authority suggests that its proposals for MEFA facilitation of Eximbank loan guarantees and for Eximbank participation in MEFA loan guarantees be viewed as a pilot project or model for the development of cooperative financing efforts. Because the Minnesota Legislature has already made appropriations to MEFA and because preliminary efforts are underway to define the financing policies of the State agency, this program can proceed without substantial delays. Minnesota offers to be the laboratory for research and development in cooperative and innovative financial assistance for small business export development.

[The prepared statement of Ms. Halverson follows:]

Minnesota Trade Office
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SENATE SMALL BUSINESS COMMITTEE
Hearing on Export Financing for Small Business
September 12, 1983
St. Paul, Minnesota

TESTIMONY OF MINNESOTA TRADE OFFICE

I. Importance of small business exports to Minnesota.

Although exports are the fastest growing segment of Minnesota's economy, only 14% of Minnesota's manufacturers now export. Most of those exporters are small businesses. Almost 40% of Minnesota's exporters employ fewer than 30 persons. Further, Minnesota businesses are relatively new-to-export. Nearly 30% have been exporting only four years or less, and a considerable proportion have been exporting for less than two years.

Exporting is also very significant to the agricultural sector of Minnesota's economy. Minnesota ranks fifth nationally in total agricultural exports. In the fiscal year ending September 30, 1982, Minnesota's agricultural export sales totalled nearly $1.9 billion, down nearly $.5 billion from the previous fiscal year. Although agricultural exports in general declined in 1982, significant gains were made in two market segments. Sales of processed vegetables increased 22% in 1982, and dairy product exports increased 86% in 1982. These growing market segments are precisely the types of export trade which should be further opened up to small and medium sized companies. Further, smaller sized companies have significant potential for exporting specialty crops such as geese, turkeys, and wild rice. Another developing export potential for smaller breeders and farmers is agricultural technology in the form of livestock breeding and genetic research.

In order to penetrate world markets and maximize export potentials, small businesses and agricultural producers need two types of assistance. First, they need information and promotion which will give them access to the world trading network. Secondly, financial resources must be made available on terms which will allow them to compete in the international marketplace.

II. Efforts by the State of Minnesota to provide information and promote exports.

For many years the State of Minnesota has been a pioneer in agricultural promotional efforts. The Minnesota Department of Agriculture has assisted producers and agri-businesses in promoting Minnesota produced and processed food products in regional, national, and international markets. The Department has participated in trade shows and trade missions and provided technical assistance to new and expanding firms, encouraging them to enter the international marketplace.

As a result of Governor Perpich's initiatives and legislative action by the 1983 Legislature, the international trade development activities of the Department of Agriculture have been expanded through the creation of the Minnesota Trade Office.

The Minnesota Trade Office combines the role of promoting the state's agricultural products with development and promotion of international trade for manufactured goods. The Trade Office represents a vastly expanded effort by the state in the international trade area. The major thrust of the agency's efforts will be directed at developing the export marketing efforts of Minnesota's small and medium sized businesses and its ever growing agricultural commodity producers.

The Minnesota Trade Office is divided into four sections, as follows:

1. Agricultural Marketing Division.

   The Agricultural Marketing Division promotes Minnesota food products both domestically and internationally. Historical accomplishments such as the Minnesota Food Exposition serve as a model for further development of marketing expertise. The division administers grant programs for the promotion of agricultural products by both private and public groups.

2. International Trade Division.

   The International Trade Division promotes Minnesota manufactured products and services by means of trade shows, trade missions, and consultation with individual companies which are new-to-export. The division also works with foreign companies desiring to invest or locate in Minnesota.

3. Export Information Office.

   The Information Office gathers and disseminates information on Minnesota products, foreign trade leads, and international trade service organizations. The Office will publish trade directories, organize trade seminars, and direct the new-to-export program, called MINNEXPORT, as described below.

4. Export Finance Authority.

   The Minnesota Export Finance Authority (MEFA) administers a program to provide financial assistance to small businesses for their pre-export credit needs. MEFA will guarantee or insure loans for exporters, allowing them to borrow money from private lenders for their working capital needs from the time an export sale is formed through the time of shipment.

The Minnesota Trade Office administers several programs and services designed to assist Minnesota exporters in accessing the world trade network and obtaining financing for their export sales.

The agency organizes trade missions and trade shows to maximize potential of Minnesota companies to expand sales, conclude licensing agreements, and promote other forms of international trade. Emphasis is placed on organizing industry-specific shows and missions and pre-marketing the products of participants.

A volunteer consultants program is operated through the Export Information Office. Services are volunteered by international lawyers, bankers, sales managers, and the Small Business Administration Corporation of Retired Executives (SCORE). These volunteers consult with small businesses on specific export problems or questions that may develop. The Export Information Office matches companies who are seeking help with volunteers who can provide valuable insight, experience and services.

A similar program for sharing of expertise and experience in international marketing is organized through the Big Brother Program. This program matches new-to-export companies with non-competing, experienced exporters. Thus the fledgling exporter can benefit from the experience of companies with an established export business.

The Trade Office also operates the MINNEXPORT program to help small businesses enter foreign markets. Companies who participate in MINNEXPORT are screened for the exportability of their products, and appropriate products are selected for pre-marketing. Then company representatives are thoroughly briefed and taken on highly structured trade missions to meet pre-screened distributors and potential users in several countries.

The Export Information Office is conducting an extensive education program tailored to the particular needs of Minnesota's small business exporters and potential exporters. In preparing the educational presentations, the Office first visits with several Minnesota businesses to determine their specific interests and educational needs. Presentations or discussions are then designed to address the identified topics of concern. For example, a session was conducted to explain principles of international patent law. Another session focused on Canadian specifications for imported electrical products. Another seminar is planned in conjunction with the Minnesota Bankers Association to introduce bankers in smaller towns to the needs of their exporting customers. Among other things, this seminar will explain programs of insurance and loan guarantees for export sales which are available through governmental sources and private insurance companies.

The Information Office is also conferring with the state's institutions of higher education, to determine curriculum and course offerings in international trade which are suitable to to the respective institutions and responsive to the needs of Minnesota business. A seminar is planned at St. Cloud State University to stimulate interest in exports through presentations by small businesses which have already established a successful export trade.

The Minnesota Trade Office will also provide extensive information services. A trade lead information data base will be organized to match Minnesota products and foreign demand for these products. Minnesota companies will be notified of foreign sales opportunities. Initially, the U.S. Department of Commerce trade leads will be used, but will later be augmented with leads generated by Minnesota Trade Office staff. Additionally, two types of publications are planned. There will be trade service directories which list freight forwarders, international banks, and other services which might be useful to companies contemplating an export business. There will also be directories of Minnesota products, organized by industry, which will be used as a sales tool in foreign countries. Finally, a reference library will be developed which will contain country files and directories for use by staff and Minnesota exporters.

In addition to the Minnesota Trade Office the 1983 Legislature also created two study commissions relating to the development of an expanded Minnesota presence in the international marketplace. The World Trade Center Commission has been appointed to study the feasibility, site, development, bonding authority, costs, and financial commitment which would be required for a Minnesota World Trade Center. That Commission will report to the Legislature and the Governor by January 15, 1984. A second Commission to study the feasibility, location and establishment of a school of international business in Minnesota has been appointed by Governor Perpich. The Commission will submit its findings and recommendations to the Governor by January 1, 1984.

In addition to these institutional efforts, there are numerous individuals within Minnesota state government who have undertaken significant personal efforts in promotion of international trade. For example, Governor Rudy Perpich and a delegation of legislative leaders are today completing a three week trip making trade contacts throughout Europe and studying the peat industry of northern Europe. That trip has produced an agreement with a Swedish firm to develop peat bogs in northern Minnesota and to begin production of energy peat next summer. Additionally, arrangements have been made for Minnesota to open a trade office in Stockholm, Sweden, to operate for a nine month trial period. These efforts make Minnesota the first state to have a trade office in Scandinavia.

It is clearly the policy of both the legislative and executive branches to encourage and develop commerce with foreign countries and remove any trade barriers arising from lack of information or lack of financing.

III. State assistance in financing exports.

The Minnesota Legislature has appropriated the sum of $2 million to be used to guarantee or insure loans to small businesses which are new-to-export or small-to-export. MEFA loan guarantees may be used exclusively for pre-export credit, defined as the time between the formation of a sale and shipment of goods. Loan guarantees are limited to the sum of $250,000 per borrower. It is the statutory mandate of MEFA to provide loan guarantees and insurance for export transactions that would not otherwise be made and that are deemed to represent a reasonable risk of repayment.

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Foreign credit risk following shipment of the goods is to be covered by traditional sources, such as the U.S. Export-Import Bank, Foreign Credit Insurance Association, private insurance companies and other governmental or private sources involved in export financing.

Administrative expenses of MEFA loan guarantees will be met with appropriations from the general revenue fund. Thus, the $2 million reserve account is available solely as security for loan guarantees or other forms of financial assistance. The legislation authorizes the reserve account to be leveraged four times, thus enabling MEFA to make guarantees up to $8 million. MEFA contemplates a guarantee fee which is adequate to preserve the corpus of the reserve account intact.

MEFA has conducted preliminary discussions with the Eximbank and the Minnesota District Office of the Small Business Administration. These discussions have determined three possible areas of cooperation and mutual assistance, as follows:

1. MEFA facilitation of the loan guarantee programs currently operated by Eximbank under its Export Trading Company Act Loan Guarantee Program, and the SBA under its Export Revolving Line of Credit Program;

2. A grant of authority by Eximbank and SBA to MEFA to allow MEFA to extend or commit Eximbank and/or SBA participation in loan guarantees;

3. Training programs for MEFA staff and board members to be conducted by Eximbank and/or SBA staff.

Both the Eximbank and SBA have indicated that a primary difficulty which they experience in processing applications for export loan guarantees is the inadequacy of information provided by applicants. MEFA is proposing to facilitate these federal loan guarantee programs by assisting applicants with preparation and submission of the necessary information.

MEFA proposes to counsel potential exporters on the available federal and state programs and to assist in determining the exporter's eligibility for the respective loan guarantee programs. MEFA would then facilitate the loan application process and participate where necessary in guaranteeing loans. For example, if an exporter meets the eligibility requirements for SBA's Export Revolving Line of Credit Program, MEFA would assist with application to SBA. If the SBA declines and the applicant appears eligible for the Eximbank Export Trading Company Program, MEFA would assist the applicant in preparing the application package and submitting it to Eximbank. MEFA would participate in the loan guarantees made by SBA or Eximbank as appropriate. In cases where an exporter did not qualify for loan guarantee participation by either SBA or Eximbank, MEFA would consider issuing its sole guarantee for an appropriate percentage of the loan.

These proposed arrangements would help avoid duplication and overlap in state and federal programs and would funnel applications to the most appropriate program. Because MEFA would assist in preparing the loan guarantee applications, administrative costs and processing time at the Eximbank and SBA should be minimized. In return, the Eximbank and SBA might commit to process applications submitted by the Minnesota Trade Office in an expeditious manner. This arrangement is similar to the Preferred Lender Program now operated by the SBA.

MEFA is also proposing a second type of cooperative program to Eximbank and SBA. MEFA is seeking participation by Eximbank and SBA in loan guarantees made by MEFA. For example, Eximbank and SBA could establish guidelines for the general types of transactions in which those agencies would participate leaving to MEFA the actual analysis and credit check on individual transactions. MEFA would be authorized to extend federal loan guarantees for credit worthy borrowers without seeking prior Eximbank or SBA approval for the individual transaction. MEFA's authority to extend federal guarantees would be subject to negotiated limits and conditions, for example defining a maximum loan amount or percentage participation by each federal agency.

Under this type of guarantee participation authority, MEFA would perform loan work up and analysis, documentation, and administration. This arrangement would substantially reduce the staffing needs and direct costs to Eximbank and SBA, while helping those federal agencies achieve their goal of reaching small businesses. Eximbank and SBA can benefit from the outreach and delivery systems already being developed by the Minnesota Trade Office.

The amendments proposed by Senator Boschwitz to the Export-Import Bank Act of 1945 would stimulate and facilitate the type of cooperative proposals which MEFA is pursuing. Minnesota Commissioner of Agriculture Jim Nichols has indicated his support for the amendment.

The Minnesota Export Finance Authority suggests that its proposals for MEFA facilitation of Eximbank loan guarantees and for Eximbank participation in MEFA loan guarantees be viewed as a pilot project or model for the development of cooperative financing efforts between Eximbank and state government agencies. Because the Minnesota Legislature has already made appropriations to MEFA and preliminary efforts are underway to define the financing policies of the state agency, this program can proceed without substantial delays. Minnesota offers to be the laboratory for research and development in cooperative and innovative financial assistance for small business export development.

Sue Halverson
Special Assistant
Attorney General
representing the
Minnesota Trade Office

Senator BOSCHWITZ. Thank you very much, Sue. That is most helpful testimony.

Minnesota certainly is taking a very aggressive stand. I might comment for a moment about Governor Perpich's trip and encourage him on. I know that he has gotten considerable criticism for making these trips, as do Members of Congress who take trips here and there. You really cannot find out what is going on without making such a trip. The visibility that he has given the whole business of exports I think is going to help this State.

On the basis of your testimony, I note that we have forged ahead, more so than other States. Are you familiar with what other States have done in this area?

Ms. HALVERSON. To some extent I am. Governor Perpich had a conference with the Great Lake States and invited representatives involved in international trade from those States and other States, such as New York, New Jersey, and California——

Senator BOSCHWITZ. California is a Great Lakes State now?

Ms. HALVERSON. No. The Great Lakes States were the host.

Senator BOSCHWITZ. Oh, the host.

Ms. HALVERSON. They invited presentations from more experienced exporting States such as California.

Senator BOSCHWITZ. I hope the Governor persists. I hope he persists in keeping the whole idea of exports at a high level of visibility.

We have had testimony from a number of other States. Are you familiar with the Mass Port project as well?

Ms. HALVERSON. Yes, we are.

Senator BOSCHWITZ. Have you spoken with them? They have been very successful.

Ms. HALVERSON. Yes. People from the Minnesota Trade Office have met personally with Mass Port people to learn more about their program. Actually, I think we are using it as a model for some of the activities of the Minnesota Trade Office.

Senator BOSCHWITZ. I gathered that from your testimony. I could see certain similarities. They were really quite a pioneer in the so-called Mass Port project, which is not only Massachusetts but generally New England as a whole. They have been very successful and come to us very often with figures and numbers which show that they have stimulated a lot of exports. Hopefully, you will be as successful.

It seems to be a very complete and well-thoughtout program. The crux of it will be getting it out and making people aware of it, and getting the bankers to have some confidence in it, and so forth.

As my office can help and as the Small Business Committee of the Senate can help, we would be very pleased to do so.

I congratulate you, the Governor, and Commissioner Nichols for the efforts you are making. I think it is very true that the effort is made in the right direction and that it will mean jobs as well as meaningful industrial and commercial growth for the State of Minnesota.

Thank you very much, Sue.

[Subsequent information was received and follows:]

HUBERT H. HUMPHREY, III
ATTORNEY GENERAL

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September 28, 1983

The Honorable Lowell Weicker, Jr.
Chairman, Senate Small Business Committee
United States Senate
Washington, D.C. 20510

Re: Senate Small Business Committee's Subcommittee on Export Promotion and Market Development

Dear Senator Weicker:

In your letter of September 14, 1983, you advised that the hearing record examining the effectiveness of the Export-Import Bank's financing programs for small business needs would be kept open for two weeks for further comments.

Enclosed are further comments of the Minnesota Trade Office for inclusion in the hearing record.

We appreciate the opportunity to input into this most important consideration.

Sincerely,

Sue Halverson

SUE HALVERSON
Special Assistant
Attorney General

90 West Plato Boulevard
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SUPPLEMENTAL STATEMENT BY THE MINNESOTA TRADE OFFICE
BEFORE THE SUBCOMMITTEE ON EXPORT PROMOTION AND MARKET DEVELOPMENT
SENATE SMALL BUSINESS COMMITTEE

The Minnesota Trade Office wishes to discuss in greater detail the impact which Amendment 1299 proposed by Senator Boschwitz would have on the State of Minnesota's efforts to promote and finance small business exports.

As briefly discussed in our previous testimony, the Minnesota Export Finance Authority is seeking the participation of Eximbank in a cooperative financing program. MEFA is, in essence, seeking a line of credit or master guarantee authority to extend Eximbank loan guarantees in participation with guarantees made by MEFA.

The proposal which MEFA has made to Eximbank is similar to the FCIA master insurance policy under which certain larger commercial banks have been delegated authority to insure the foreign risks of export transactions. The MEFA proposal would assist with the pre-export or domestic side of financing small business exports. MEFA is seeking a line of credit or authority to extend Eximbank loan guarantees for credit-worthy borrowers under the Export Trading Company Act loan guarantee program. MEFA desires authorization to commit Eximbank to a loan guarantee, or to co-participation with MEFA in a loan guarantee, without prior Eximbank review and approval for each individual transaction. MEFA's line of credit or master guarantee authority might be subject to certain negotiated limits and conditions, e.g., defining a maximum loan amount or percentage participation by Eximbank. Within those negotiated limits, MEFA would be authorized to extend Eximbank loan guarantees, or co-participation in MEFA guarantees, without processing each transaction through Eximbank.

MEFA has proposed to supervise the lending institution in performing loan work-up and analysis, documentation, and loan servicing and administration. This arrangement would substantially reduce Eximbank's staffing needs and direct costs for issuing guarantees. At the same time the MEFA proposal would help Eximbank achieve its goal of reaching small businesses. As described in our previous testimony, MEFA and the Minnesota Trade Office are developing an extensive information and assistance network for small business exporters which has the potential to greatly improve the delivery system for governmental financing programs.

The provisions of Amendment 1299 proposed by Senator Boschwitz would directly impact upon the proposal which MEFA has made to Eximbank.

First, the small business set aside would assure that a significant proportion of Eximbank assets would be dedicated to the needs of small business. Like Congress, the Minnesota Legislature has recognized the need for governmental financial support for small business exporters. In light of this recognition the Minnesota Legislature has created the MEFA and has appropriated the sum of $2,000,000 to a reserve account to support loan guarantees or insurance. In addition, the legislature has funded administrative expenses of MEFA with appropriations from the general revenue fund.

The creation of the Minnesota Trade Office and MEFA were undertaken despite very tight resources in state government. Minnesota's revenue sources have been hard hit by general recessionary conditions, and particularly by extensive unemployment in the taconite and mining industries of northern Minnesota. At this time of state fiscal crisis, the $2,000,000 reserve account and the Minnesota Trade Office budget represent a significant commitment by the Minnesota Legislature. While the absolute dollar amounts

appropriated to the state program are not huge, they represent a significant commitment in light of the state's current fiscal austerity.

The proposed set aside program in Amendment 1299 could buttress the efforts of the state with the substantial resources of the Eximbank, thereby greatly enhancing the impact of the state's promotional and financing efforts.

A secondary element of the set aside requirement in Amendment 1299 bears comment. The Amendment's set aside requirement provides that financing would be available without regard to whether financing for the particular transaction was disapproved by any other federal agency. Under current policies of the Eximbank, loan guarantees under the Export Trading Company Act loan guarantee program are available to small businesses only if they are ineligible for, or have been turned down by, the Small Business Administration. This requirement imposes significant delays, costs, and administrative burdens on the participating lending institutions and potential exporters and borrowers. As Daniel G. Brian of Norwest Bank commented at the hearings in St. Paul on September 12, 1983, the SBA Export Revolving Line of Credit Program is deemed by bankers to be cumbersome and difficult to administer. He explained that banks have not taken the lead in marketing the loan guarantee programs of SBA and Eximbank because those programs are not profitable to the lending institutions. The size of the transactions are small, while the paperwork and administrative expenses are large.

One step in the costly and cumbersome paperwork procedures could be eliminated if Eximbank small business set asides were available without prior application to the Small Business Administration.

A third feature of Amendment 1299 is even more directly supportive of the MEFA proposal to Eximbank for co-participation. The Amendment would require Eximbank to provide lines of credit for guarantees to consortia of small or medium-size banks and state finance agencies, among others. The participating institutions would be required to share processing, servicing, and credit evaluation functions.

The proposal which MEFA has made to Eximbank is precisely this type of arrangement. MEFA is seeking a line of credit or master guarantee authority which would allow MEFA to commit Eximbank guarantees to lenders without prior review by Eximbank for each individual transaction. MEFA has offered to bear the administrative duties and expenses of supervising lending institutions in credit evaluations, loan processing and servicing. Eximbank would clearly be authorized to approve the MEFA proposal if Amendment 1299 were adopted.

A fourth feature of Amendment 1299 also supports the MEFA proposal to Eximbank. The Amendment would require Eximbank to promote small business exports and financing programs in cooperation with, among others, state agencies. As described in our previous testimony, the Minnesotoa Trade Office is already conducting numerous programs and outreach efforts to promote exports by smaller, new-to-export businesses. The Minnesota programs are the type of delivery and marketing systems which Eximbank needs if it is to realistically address the financing needs of small businesses. The Minnesota Trade Office could become the marketing arm of Eximbank in Minnesota. If the Minnesota Trade Office had a delegation of authority from Eximbank for making credit decisions, the export financing program could be both marketed and delivered by the local agency. The promotional

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efforts of the Minnesota Trade Office, coupled with the financing resources of MEFA working with the Eximbank, could create a program which would be accessible and practical for small business exporters.

In conclusion, Amendment 1299 is designed to foster precisely the type of cooperative effort and financing arrangements which MEFA has proposed to Eximbank.

To date the response of Eximbank to the MEFA proposal has been lukewarm at best. First, Eximbank indicates concern that it does not have the statutory authority to undertake a cooperative program such as that proposed by MEFA. Amendment 1299 would make clear that Eximbank is authorized to provide lines of credit or master guarantee authority to other governmental and private sector entities in order to finance small business exports. Secondly, Eximbank questions whether there is a need for the kind of financing arrangement which MEFA proposes. Amendment 1299 would constitute a congressional declaration of the existence of this need.

This subcommittee has already heard from Senator Boschwitz regarding the dismal track record of Eximbank in reaching small businesses. In 1982 only 2.8 percent of Eximbank's total available financing went to small businesses. Amendment 1299 would not only require Eximbank to increase its financial assistance to small business exporters, but would also mandate specific programs for delivering that financing.

MEFA stands ready to participate in the delivery system for Eximbank financing programs. MEFA proposes to assume responsibility for credit-making decisions at the state level and to participate in the administration of loan guarantees and supervision of lending institutions in credit evaluations and loan servicing.

The Minnesota Trade Office reiterates its strong support of Amendment 1299 proposed by Senator Boschwitz to the Bill (S. 869) to amend the Export Import Bank of 1945.

Dated: September 28, 1983

Sue Halverson

SUE HALVERSON
Special Assistant
Attorney General

Senator BOSCHWITZ. I notice that Dan Brian has arrived. He is senior vice president of the Norwest Bank.

We welcome you here this morning.

I have told the people who are here that we would hear from you as soon as you arrived. Therefore, we are ready for you and anxious to hear what you have to say.

STATEMENT OF DANIEL G. BRIAN, SENIOR VICE PRESIDENT, AMERICAS DEPARTMENT, NORWEST BANK OF MINNEAPOLIS, MINNEAPOLIS, MINN.

Mr. BRIAN. Thank you, Senator.

I did have a personal problem this morning, and that has now been resolved. Therefore, I would like to stay to hear the other testimony, also.

I have put together a very short writeup here. I would like to go over some of the points which I would like to make.

On the surface, the support to be provided to small business is admirable and may go far in stimulating exports from this sector of business. However, some points should be made, and this is from a banker's perspective:

Historically, it has been cumbersome and expensive to work with Eximbank. If at all possible, banks will do transactions without Eximbank participation due to the redtape and added expense. This redtape and expense makes sense on some larger transactions, rarely, if ever, on small transactions.

Overhead costs on a $100,000 transaction and on a $1 million transaction are about the same. The small exporter is unable to bear the fixed costs associated with putting an export transaction together. The 10 percent target will be an effort to achieve due to inefficiency of costs.

Ex-Im Bank has never extended credit in the U.S. market. This has never been its mandate. Moving into an area of total unfamiliarity will be a difficult task for them.

The weak link in the export financing chain is preexport financing or the performance risk of the exporter who cannot obtain preexport financing through conventional sources. This is, indeed, a high credit risk.

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Without education and direction provided from the Department of Commerce, small business will be ignorant of what opportunities exist. Without dissemination of information, the program will not reach those who need it.

These points have been made quickly and perhaps with not enough explanation, but I would be happy to respond to any questions regarding the points that I have made.

[The prepared statement of Mr. Brian follows:]

Daniel G. Brian
Senior Vice President

Norwest Bank Minneapolis, N.A.
608 Second Avenue South
Minneapolis, Minnesota 55479

NORWEST BANKS

DATE: September 12, 1983

TO: Rudy Boschwitz, United States Senator

FROM: Daniel G. Brian, Norwest Bank Minneapolis

SUBJECT: Export-Import Bank Small Business Amendment

On the surface, the support to be provided to small business is admirable and may go far in stimulating exports from this sector of business. However, some points should be made:

-- Historically, it has been cumbersome and expensive to work with Eximbank. If at all possible, banks will do transactions without Eximbank participation due to the red tape and added expense. This red tape and expense makes sense on some larger transactions, rarely if ever on small transactions.

-- Overhead costs on a $100,000 transaction and on a $1,000,000 transaction are about the same. The small exporter is unable to bear the fixed costs associated with putting an export transaction together. The 10% target will be an effort to achieve due to inefficiency of costs.

-- Eximbank has never extended credit in the U.S. market. This has never been its mandate. Moving into an area of total unfamiliarity will be a difficult task.

-- The weak link in the export financing chain is pre-export financing or the performance risk of the exporter who cannot obtain pre-export financing through conventional sources. This is indeed a high credit risk.

-- Without education and direction provided from the Department of Commerce, small business will be ignorant of what opportunities exist. Without dissemination of information, the program will not reach those who need it.

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Senator BOSCHWITZ. We have a panel, Dan, and since you can stay, I think we will start with the panel. In the process of the panel discussion, I will ask for some clarification and also ask you to expand upon some of the points that you made. Perhaps it will be covered in the panel discussion.

I welcome and ask the panel to direct their comments on Mr. Brian's remarks.

Let me now introduce the panel. We have Ms. Evie Sprada, who is president of the Minnesota World Trade Association and is associated with Control Data Commerce International. Control Data has been in the lead in very many areas, not only in international trade, but just generally in whatever is imaginative and is being done.

We also have Mr. Jann Olsten, who is on SBA's Small Business Advisory Council and is chairman of the Subcommittee on International Trade. He is an attorney with Stacker, Ravich & Simon.

Finally, we have Krikor Mokhtarian, who is president of the Levant Industrial Development, Inc., here in St. Paul. We have met on a number of occasions.

Why don't we proceed, then? First, we will hear from you, Mr. Olsten.

STATEMENT OF JANN L. OLSTEN, SMALL BUSINESS ADVISORY COUNCIL, CHAIRMAN, SUBCOMMITTEE ON INTERNATIONAL TRADE; AND ATTORNEY, STACKER, RAVICH & SIMON, MINNEAPOLIS, MINN.

Mr. OLSTEN. Thank you, Senator.

Senator BOSCHWITZ. Do we have a copy of your remarks?

Mr. OLSTEN. You should.

Senator BOSCHWITZ. Do you have extra copies?

Mr. OLSTEN. I think there are about 25 of them that were made available.

Senator BOSCHWITZ. They are being distributed?

Please proceed.

Mr. OLSTEN. The panel is such that each of us has prepared our own testimony. Then perhaps afterward we could, all five of us, engage in an exchange of questions that you or any others may have.

Basically, I am going to touch on three points.

No. 1 is the effectiveness of the current Eximbank programs in meeting the small business exporting needs. Then I would like to discuss just briefly what impact I think your amendment might have on improving that effectiveness. Finally, I would like to discuss briefly a couple of other Government programs that are geared toward assisting export financing and have a particular interest to small business.

In terms of the effectiveness of the current Eximbank programs in meeting the small business needs, I think even by its own admission Eximbank does not adequately meet those needs. For instance, as you cited, the figures of approximately 2.5 to 3.5 percent of Eximbank funds in the past few years has gone to finance or assure small business transactions. Based on those numbers, there is clearly some room for improvement.

The impact of your proposed amendment, however, on the Bank's ability to meet small businesses' needs should be viewed in light of the reasons for the Bank's ineffectiveness in dealing with small business export financing. These reasons, I believe, relate in large part to the nature of Eximbank's direct loan and loan guarantee programs. In this regard, some background may be helpful.

It is estimated that nearly two-thirds of U.S. exports are sold on cash or near-cash terms, with little or no credit from U.S. sources. Most of the remainder is financed by commercial banks or by the exporters themselves. The Eximbank is the only Government agency devoted principally to the financing of exports.

Eximbank programs, however, are not designed in such a way to lend significant assistance to small businesses. Basically, its programs are designed for larger exporters, who have medium- to long-term financing needs that often cannot be met by private financial institutions.

To review briefly, the existing programs fall basically into three, or perhaps four, categories:

First, we have long term, direct loans for major projects overseas that have repayment terms of 5 years or longer. This mainly addresses loans in excess of $5 million and falls into the major project category of the Eximbank financing.

Then we have guarantees to private lenders. These truly are guarantees, but they are only for medium-term repayment periods of 181 days to 5 years.

We also have the newer program, the Export Trading Company's loan guarantee program, which is fairly new and which I understand is coming on board and working fairly well, but it is in its infancy.

Finally, we have the insurance to protect exporters against loss on the credit they extend. This insurance program is designed for short-term as well as long-term transactions, and it is issued by a private sector affiliate, the FCIA, the Foreign Credit Insurance Association. While this does address some small business needs, there are problems with it.

First, insurance is not tantamount to a guarantee. A guarantee is just that, and payment upon default is generally certain. However, the insurance issued by the FCIA has some limitations and exclusions which make it less attractive.

For instance, a shipper cannot insure individual shipments. It must insure, and pay for insuring, all of its exports, I believe within a calendar year. The process of insuring is said to be a cumbersome one, with a good deal of paperwork involved. Perhaps the greatest shortcoming, however, is the element of uncertainty of payment, even once insurance is obtained. This results from certain exclusions, whereby payment is not made if performance by the shipper is the subject of litigation, if there is a question as to whether the importer actually accepted the goods in a legal sense, and if the importer fails to pay, alleging fault on the part of the exporter.

Because of this uncertainty, the insurance program is not as attractive as a guarantee. As you can see, the Eximbank programs provide no short term, direct loans or guarantees, those which arguably are most attractive to smaller businesses.

With this background in mind, what impact, if any, might this amendment have on the Eximbank Bank's ability to meet small businesses' export financing requirements? I think the answer requires a brief examination of the financing needs of the small businesses, something that I believe Krikor, Evie, and perhaps others could speak to with some more specifics.

The two basic considerations of export financing are the cost of money and the availability of money. While the two are certainly somewhat intertwined, I think it is fair to say that the primary need of small businesses is the availability of money. Again, comments from Evie and Krikor would be particularly helpful here.

Letter of credit transactions are commonplace, but cannot address all needs of the importers. They are not available to all importing countries. Short-term transactions of 90, 120, and 180 days are often difficult for the exporter itself to finance. Also, unless your transaction includes a letter of credit or similar instrument, the exporter runs the risk of nonpayment. Consequently, the lack of funds to finance its transactions and the uncertainty of payment are serious disincentives to entering the international markets.

Certainly, then, increased availability of financing to the small business exporters will be helpful. Your amendment, which I think I erroneously quoted as a 6 to 10 percent program and perhaps that is the House figure, calls for a 10 to 15 percent set-aside of Eximbank funds, which will increase the availability significantly. But I think it is also important to view the amendment in light of the existing Eximbank programs and their ability to meet small business financing needs.

As I discussed, the long-term, direct loan program will be of little or no assistance to small business, regardless of how much is set aside. The guarantees to private lenders for medium repayment periods have some application to small business, but an examination of the types of transactions guaranteed by Eximbank under this authority will show they are traditionally limited to transactions in excess of $100,000. There is a real shortage of short-term guarantees and direct loan financing available. Short-term financing is limited to FCIA insurance which, for reasons I just discussed, has its shortcomings.

This brings me to that aspect of the amendment which is probably less heralded, but I think equally as important as the basic set-aside provisions; that is, the requirement that Eximbank establish a program providing lines of credit or guarantees to consortia of banks, export trading companies, State financing companies, and the like. Eximbank does not have the resources to involve itself in hundreds or thousands of individual small loans or guarantees. I do not think any of us would advocate expanding the bureaucracy to accomplish this. Rather, programs should be designed that will take advantage of private sector resources, using Eximbank lines of credit or guarantees to finance small business exports.

I believe some of the programs that the State of Minnesota is contemplating, as Sue discussed, might be the types of things that could fit within the purview of this language.

Finally, in terms of the role this committee and Congress as a whole will play should this legislation pass, I think the oversight authority and responsibility are important. Eximbank, for some

good reasons, has expressed dissatisfaction with any set-aside program, whether it be a set-aside for small business, agriculture, or so on.

Furthermore, merely setting aside the funds will serve no purpose if they are not utilized. The availability of funds and a description of programs developed must get back to the States, and this will require an aggressive marketing program. It may be unrealistic to expect that task to be accomplished by the Eximbank, which is a relatively small organization and, frankly, which has expressed something short of enthusiasm for the set-aside program. Perhaps that role should be assumed or shared by the local offices of the Department of Commerce as well as the district SBA offices, and certainly the Minnesota Export Financing Agency.

The Eximbank's effectiveness in financing small business exports is limited, but merely allocating, or setting aside, a certain percentage of loans, guarantees, and insurance will not solve the problem. Eximbank must work in cooperation with private sector organizations and other agencies within the Federal and State Governments to develop financing programs more appropriate for small business exporters.

Now I would like to take just a moment, if I may, to shift course a little bit in order to talk about one or two additional Government programs which do impact small business exporters and on which I would like to make some observations.

In addition to the Eximbank, there are two Federal Government programs which assist exporters and which have some particular interest to small business.

First of all is the Domestic International Sales Corporation and its proposed alternative. As you are probably aware, the DISC provisions were added to the Internal Revenue Code in 1971 and permit an exporter to establish a separate corporation, DISC, through which the parent corporation can run its export sales. A portion of the income generated by the sales must be distributed to the parent corporation, but up to 50 percent of the income can be retained by the DISC, exempt from taxation. This money can then be used for such things as producer loans, which allow the parent corporation to use the funds that sit in the DISC as working capital. Therefore, it has a great deal of attraction to both large and small business exporters.

The DISC, however, has run into trouble with our trading partners, who claim it to violate our GATT agreements. Consequently, our Government has agreed to develop a GATT-compatible alternative to the Domestic International Sales Corporation.

The DISC alternative was submitted to Congress by the administration this summer, and I believe it is Senate bill 1804. It calls for a new device referred to as a Foreign Sales Corporation. Just for general information, I believe Congressman Frenzel was one of the more active participants on the House side in working with the administration to fashion this new legislation.

To satisfy our GATT partners, the FSC will have certain offshore requirements, including the maintenance of an office outside U.S. Customs territory. These new requirements could prove to be a hardship for the small business exporters.

In its present form, though, the legislation provides some alternatives to the FSC rules for small business exporters. I would certainly urge support of this iegislation generally, but also with particular emphasis on those small business alternatives contained in the bill.

As an aside, while Sue is sitting here, I'll take this opportunity to give some input to our State. The State of Minnesota has not recognized a DISC as such for State taxation purposes, although I do understand that this past legislative session the Governor expressed some interest in doing so, but because of the Foreign Sales Corporation and the DISC alternative, nothing was done in the legislature.

To further encourage the business expansion through increased trade, the State should be encouraged to monitor the Federal legislative proposals and then, hopefully, adapt its State tax laws so that they are compatible with the Federal and provide the same incentives to small business exporters in Minnesota as the Federal does and as are found in several other States.

Finally, I would like to talk just briefly about some small business administration assistance to exporters and talk a little bit about its underutilization, as well as make some recommendations to improve the public's awareness of the program.

The SBA has a fairly new program referred to as the export loan guarantee program. I believe this has the potential to be a very good product. It is designed for new exporters. It guarantees 90 percent of the loan or credit line. The interest rates for the financing are set by the banks. I believe, although perhaps Mr. Brian could correct me if this is wrong, that it is a maximum of 2¾ percent over prime. Maturity is a maximum of 18 months, and loans are guaranteed either for a specific transaction or for an open line of credit.

However, this program has been in existence for over a year now. I believe it was June of 1982 when it first became available. Since then, the SBA office in Minneapolis has received only three applications through this program. One can only assume the exporting public is simply not aware of its existence.

There may be some problems from the Bank's standpoint. Again, perhaps if Mr. Brian is familiar with it, he might be able to shed some light as to why this program might not be better used.

Solving this problem, underutilization, will require an effort not only by the SBA. There has been a significant reduction in personnel over the past couple of years in the SBA office locally, and a large number of other programs are being administered by the SBA. Consequently, it is probably not realistic, or perhaps not even the best method, to expect the SBA to launch an aggressive marketing program. The SBA will have to rely heavily on the banks to make their customers aware of the program.

First, the banks should know of the program if they do not already. I am fairly certain the larger banks in the Twin Cities area are aware of it, but I am not sure just how far out the message has gotten outside the Twin Cities area.

The session which Sue Halverson mentioned with the Minnesota bankers might be a good opportunity to better inform them on the

existence of the program and perhaps increase the use of the program.

Also, in the larger banks the knowledge needs to be shared not only by the small business departments, but by the international departments.

Finally, since the banks are often the first point of contact for potential exporters, they must assist in making the small business exporter aware of the program and encourage its use.

This completes my prepared testimony. I would like to take the liberty of just a couple more minutes, though, to comment on one other aspect which I think was in Sue's testimony, which you referred to Senator, and which I have found to be the case in the past 9 months since I have been back in the State.

There is a great deal of interest here in Minnesota in international trade. There are a number of programs and there are a number of organizations that are involved in promoting these programs: the Minnesota World Trade Association, which Evie is head of and of which many of us are members; the Chamber of Commerce. There are just a number of things going on right now in the private sector as well as the public sector.

However, all of the programs do no good if those who need them are not aware of them. You probably understand better than any of us the importance of marketing. I do believe that is a proper role for both the State and the Federal Government to play in terms of bringing together all the different parties in the State of Minnesota who have an interest, some skill, and some assistance to offer to small businesses as well as large business exporters. Perhaps through the Minnesota Export Information Office, or whatever, your office, the Department of Commerce locally and the SBA could funnel all their energies together and fill that gap between the Government programs and the knowledge of the small business users.

[The prepared statement of Mr. Olsten follows:]

STATEMENT BY JANN L. OLSTEN, ESQUIRE
SMALL BUSINESS ADVISORY COUNCIL, CHAIRMAN
SUBCOMMITTEE ON INTERNATIONAL TRADE
BEFORE SUBCOMMITTEE ON EXPORT PROMOTION
AND MARKET DEVELOPMENT
SENATE SMALL BUSINESS COMMITTEE
SEPTEMBER 12, 1983

I. EFFECTIVENESS OF CURRENT EXIM PROGRAMS IN MEETING SMALL BUSINESS EXPORTING NEEDS

By its own admission, EXIM does not adequately meet the financing needs of small business exporters. For instance, currently only about 3% of EXIM's funds go to finance or insure small business transactions. Clearly there is room for improvement.

The impact of this proposed amendment on the bank's ability to meet small businesses' needs, though, must be viewed in light of reasons for the bank's ineffectiveness in dealing with small business export financing. These reasons relate in large part to the nature of EXIM's direct loan and loan guarantee programs. In this regard, some background may be helpful.

It is estimated that nearly two-thirds of United States exports are sold on cash or near-cash terms, with little or no credit from U.S. sources. Most of the remainder is financed by commercial banks or by the exporters themselves. The EXIM bank is the only government agency devoted principally to the financing of exports.

EXIM programs, however, are not designed in such a way to lend significant assistance to small businesses. Basically, its

programs are designed for larger exporters, who have medium to long-term financing needs that often cannot be met by private financial institutions. To review briefly, the existing programs fall basically into three categories:

A. Long-term direct loans for major projects overseas with repayment terms of five (5) years or longer.

This mainly addresses loans in excess of $5,000,000.00.

B. Guarantees to private lenders.

These guarantees are only for medium term repayment periods of 181 days to 5 years.

C. Insurance to protect exporters against loss on the credit they extend.

This is designed for short-term as well as long-term transactions, and is issued by a private sector affiliate, the Foreign Credit Insurance Association ("FCIA"). While this does address small business needs, there are some problems with it.

First, insurance is not tantamount to a guarantee. A guarantee is just that, and payment upon default is generally certain. However, the insurance issued by the FCIA has some limitations and exclusions which make it less attractive.

For instance, a shipper cannot insure individual shipments. It must insure, and pay for insuring, all of its exports. The process of insuring is said to be a cumbersome one, with a good deal of paperwork involved. Perhaps the greatest shortcoming, however, is the element of uncertainty of payment. This results from certain exclusions, whereby

payment is not made if performance by the shipper is the subject of litigation, if there is a question as to whether the importer actually "accepted" the goods, and if the importer fails to pay, alleging fault on the part of the exporter.

As you can see, the EXIM programs provide no short-term direct loans or guarantees, those which arguably are most attractive to smaller businesses.

II. IMPACT OF SMALL BUSINESS SET ASIDE REQUIREMENT

In light of the existing EXIM programs, therefore, will the proposed amendment have any significant impact on small businesses' ability to finance its exports? The answer requires a brief examination of the fincancing needs of small business.

The two basic considerations of export financing are the cost of money and the availability of money. While the two are certainly somewhat intertwined, I think it is fair to say that the primary need of small businesses is the availability of money.

Letter of credit transactions are commonplace, but cannot address all needs of the importers. Short-term transactions of 90, 120 and 180 days are often difficult for the exporter to finance. Also, unless your transaction includes a letter of credit or similar instrument, the exporter runs the risk of nonpayment. Consequently, the lack of funds to finance its

transactions and the uncertainty of payment are serious disincentives to entering the international markets.

Certainly, then, increased availability of financing to the small business exporters will be helpful. And this amendment, calling for a 6% to 10% set-aside of EXIM funds, will increase the availability significantly. But I think it is also important to view the amendment in light of the existing EXIM programs and their ability to meet small business financing needs.

The long-term direct loan program will be of little or no assistance to small business, regardless of how much is set aside. The guarantees to private lenders for medium repayment periods have some application to small business, but an examination of the types of transactions guaranteed by EXIM under this authority will show they are traditionally limited to transactions in excess of $100,000.00. No short term guarantees or direct loans are available. Short-term financing is limited to FCIA insurance which, for reasons just discussed, has shortcomings.

This brings me to that aspect of the amendment which is probably less heralded, but I think equally as important as the basic set-aside provisions; that is, the requirement that EXIM establish a program providing lines of credit or guarantees to consortia of banks, export trading companies, state financing companies, and the like. EXIM does not have the resources to involve itself in hundreds or thousands of individual small loans or guarantees. I do not think any of us would advocate expanding

the bureaucracy to accomplish this. Rather, programs should be designed that will take advantage of private sector resources, using EXIM lines of credit or guarantees to finance small business exports.

Finally, in terms of the role this Committee and Congress as a whole will play should this legislation pass, I think the oversight authority (and responsibility) is important. EXIM bank, for some good reasons, has expressed dissatisfaction with any set-aside program. Furthermore, merely setting aside the funds will serve no purpose if they are not utilized. The availability of funds and a description of programs developed must get back to the states, and this will require an aggressive marketing program. It may be unrealistic to expect that task to be accomplished by the EXIM bank, which is a relatively small organization. Perhaps that role should be assumed, or shared by the local offices of the Department of Commerce as well as the District SBA offices.

The EXIM bank's effectiveness in financing small business exports is limited. But merely allocating, or setting aside a certain percentage of loans, guarantees and insurance will not solve the problem. EXIM must work in cooperation with private sector organizations and other agencies within the federal and state governments to develop financing programs more appropriate for small business exporters.

III. ADDITIONAL GOVERNMENT ASSISTANCE TO SMALL BUSINESS EXPORTERS

In addition to the EXIM bank, there are two federal government programs which assist exporters, and which have particular interest to small business.

A. DISC and its alternative.

The DISC provisions were added to the I.R.C. in 1971. Briefly, an exporter is permitted to establish a separate corporation (DISC), through which the parent can run its export sales. A portion of the income generated by the sales must be distributed to the parent corporation, but up to 50% of the income can be retained by the DISC, exempt from taxation.

The DISC has been a widely used tool for exporters of all sizes, but it has run into trouble with our trading partners who claim it violates our GATT agreements. Consequently, our government has agreed to develop a GATT - compatible alternative to the DISC.

The DISC alternative was submitted to Congress by the Administration this summer (S 1804), and calls for a new device referred to as a Foreign Sales Corporation. To satisfy our GATT partners, the FSC will have certain offshore requirements, including the maintenance of an office outside U.S. Customs' territory. These new requirements could prove to be a hardship for small business exporters.

In its present form, though, the legislation provides some alternatives to the FSC rules for small business exporters. I would urge support of this legislation generally, but with particular emphasis on those small business alternatives contained in the Bill.

As an aside, the State of Minnesota has not recognized a DISC as such for state taxation purposes. To further encourage business expansion through increased trade, the state should be encouraged to monitor the federal legislative proposals and, hopefully, adapt its state tax laws so that they are compatible with the federal.

B. SBA assistance to exporters.

Finally, I would like to touch on a financing program available to exporters through the SBA, discuss its under-utilization, and make some recommendations to improve the public's awareness of the program.

The SBA's Export Loan Guarantee Program has the potential to be a very good product.

1. it is designed for new exporters;
2. it guarantees 90% of the loan or credit line;
3. banks set the interest rates (a maximum of 2-3/4% over prime);
4. the maximum maturity is 18 months;
5. loans are guaranteed for a specific transaction for an open line of credit.

However, this program has been in existence for over one year now, and since June of 1982 the SBA office in Minneapolis has received only three applications through this program. One can only assume the exporting public is simply not aware of its existence.

Solving this problem will require an effort not only by the SBA. With the reduction in personnel over the past one to one and one-half years, and the large number of other programs being administered by the SBA, it probably is not realistic to expect the SBA to launch an aggressive marketing program. Consequently, the SBA will have to rely heavily on the banks to make their customers aware of the program.

First, banks should know of the program if they do not already. And in the larger banks, this knowledge must be shared by the international departments as well as the small business departments. Finally, since the banks are often the first point of contact for potencial exporters, they must assist in making the small business exporter aware of the program and encourage its use.

Senator BOSCHWITZ. I am going to send you on the road to tell it.

Where were you before being here for 9 months?

Mr. OLSTEN. Someplace out East hanging around with an unruly crew. [Laughter.]

Senator BOSCHWITZ. They have become more unruly since you have left. [Laughter.]

Thank you very much, Jann.

Now, Evie, we would be pleased to hear from you.

STATEMENT OF EVIE SPRADA, PRESIDENT, MINNESOTA WORLD TRADE ASSOCIATION, EDINA, MINN.

Ms. SPRADA. Before I begin, I would like to indicate that there were several members of our association who provided input to this, one being Yvonne Halpaus, over to my right, and Gordie White, as well as several other members of our association.

Let me introduce the Minnesota World Trade Association. Our association is almost 60 years old and represents the major trade organization in the State of Minnesota with approximately 400 members from over 200 firms, representing both manufacturers and service companies, all involved in international trade. The represented manufacturers are small, less than $1 to $25 million in total sales revenue, to medium-size, $25 to $500 million. They range from beginning exporters to companies where 50 percent of their sales is realized from export marketing efforts. While large manufacturers do have representatives in our organization, they are not the major force in our group.

Service company members emanate from law firms, transportation, consulting, banking, accounting firms, trading companies, and government.

Our objective is to foster international trade through our monthly programs, educational seminars, and other promotions related to free trade for the benefit of our members.

A quick survey of our members revealed their experiences with Eximbank are relatively limited because, for a large part, they represent smaller-size manufacturers with transactions of very small shipments of parts and supplies, $100 to $5,000, to equipment purchases amounting anywhere from $10,000 to $500,000. It has been perceived that Eximbank has not been interested in these small transactions, perhaps fraught with administrative details in addition.

These manufacturers have been left in the cold, to fend for themselves, but at substantial risk to their present and future growth prospects. Their business has been left to demanding irrevocable letters of credit as financing tools to reduce their exposure, but this can severely limit their business development because L/C terms have been nontraditional in some trading areas such as Europe where open account terms have usually abounded.

Over the past 5 years there has been an increase of market competition through attractive financing tools worldwide. Previously one could require an irrevocable letter of credit. However, our customers have been offered excellent financing terms by the Japanese and others and have become more demanding of creative financing terms from us.

In addition, U.S. banks as of late have been reluctant in certain cases to confirm L/C's. Financing has, therefore, become a much more important marketing tool today than it was 5 years ago.

Eximbank is perceived as being most interested in providing funds for the large multibillion dollar projects, not financing for the small or even, in certain cases, medium-sized exporter. While the use of Eximbank has been restricted to the majority of our members due to the perception that Eximbank is not interested in the smaller, less profitable export transactions, there have been instances of financing support, but it has been riddled with problems. Here are some examples that our members have presented to me:

Competitive financing is a common complaint across the board. Eximbank will not meet competitive financing until the exporter can provide proof of what is being offered by the competition. In some cases, it may be better terms, or perhaps it is the offer of fixed-rate financing versus floating rates during a period of escalating interest rates. Nevertheless, documenting the details is a burdensome task for the exporter and has usually been next to impossible to accomplish. Even if they had the luxury of time to document such cases to find out who and what is being offered, it would be too late to consummate the sale even with Eximbank.

The more costly, less attractive financing that must be offered by our exporters in an already strong dollar market has an additional snowball effect adding to our problems of competitiveness. With the initial financing package being higher, so too then are the duties, the taxes, the handling charges, et cetera. We must pay attention to this important marketing tool.

Suggestions are to simply redefine the documentation required—make it simpler, become more flexible in financing terms, and perhaps, as someone else has suggested, even utilize the U.S. foreign commercial consuls to investigate expeditiously to provide the required documentation, if possible.

The second example relates to the coverage for risk, both political and commercial, which in itself has become a political football within the Eximbank. Here's the example: when a country stops the transfer of foreign exchange due to lack of reserves, it is considered a political risk and reimbursed at 100 percent. If, however, the country continues to transfer out as little as U.S. $10 a month, it is a commercial risk recoverable at only 90 percent.

What real value is a $10 payment on a $5,000, $10,000, or $500,000 sale? Eximbank calls it a commercial risk, but in reality it should be termed "political," or it might be more appropriately called "disastrous" for the small to medium-sized exporter.

Some suggestions: With any small business setaside of Eximbank funds, change the requirement to 100 percent coverage for both political and commercial coverage, or at least pay interest at the prevailing commercial rate on the pending claim.

The third one is an example of poor advice and suggestions. One of our member's firms had negotiated a $500,000 sale to country *x* and desired Eximbank direct financing. While the sale was small to Eximbank it was agreed to because the foreign firm already had developed an excellent relationship with Eximbank. However, the manufacturer was required to provide a chattel mortgage as collateral. Due to incomplete advice given to the manufacturer on how

to register a chattel mortgage in country *x*, it took almost 1 year for the manufacturer to be paid, when if they had been advised to utilize an alternative method of direct registration through country X's local chamber of commerce, it could have taken only a few days.

So what was the impact of this? Eximbank paid out no funds for 1 year. The customer was exceedingly happy as he had the machines working for almost 1 full year and had not yet paid any monetary funds. The real loser was the manufacturer who had incurred the cost of manufacturing, shipment, paid his taxes on the sale as a receivable, and lost a positive cash flow impact—back in the time when interest rates were running 20 percent.

How can these instances be changed? With better advice and with more talented, service-oriented personnel at Eximbank.

Example No. 4: Traditionally, banks have not been attracted to providing financing for the small exporter. The larger banks especially have been more in tune to working and supporting their larger customer needs. The administrative costs are high on these smaller deals. It has been an economic fact. However, even the larger $500 million companies have been encountering problems with Eximbank guarantees with political risks running high. They are not interested in financing even for companies having well-established banking and credit relationships.

These examples of uncompetitive financing, inadequate risk coverage, poor advice, low-service orientation, and perceived and actual low interest in export financing for small and even medium-size businesses are representative of the past inadequacies of Eximbank programs. It is our understanding that Eximbank has worked much better for the large, multibillion dollar projects and for medium-to-large-size companies, and sometimes not even then. The funds and the interest on Eximbank's behalf have always been there for the larger segment.

We also believe that more available export funds and programs must become more available for small business. Why? Not only because the U.S. Department of Commerce says there are 20,000 businesses in our country which could be exporting and which could conceivably bridge the forthcoming $60 to $100 billion trade gap, but because small firms are where innovation is nurtured and technology is spawned. It is where the future medium- and large-sized companies are being born. Small firms are providing the majority of new jobs for our citizens. We must not allow these small- and medium-sized businesses to be strangled during their growth phases.

In responding to Senator Boschwitz' amendment to the bill, S. 869, to amend the Export-Import Bank Act of 1945, we are enlightened and hope that set-aside funds can be made available on an increasing percentage basis over the next 6 years. Not only are small businesses in the $1 to $25 million range being affected, but the somewhat larger local businesses up to $500 million have encountered the exact same problems. We must see some drastic changes in the medium-term financing area as well.

The establishment of a program that provides lines of credit or guarantees to local bank consortias, export trading companies, et cetera, is most worthy of consideration. In fact, the overriding purpose of the Export Trading Act passed just last year was to foster

greater capital investment and development of U.S. ETC's. Trading companies were found to be critical to tapping the export potential of small- and medium-sized American businesses. ETC's bring significant advantages because they act as principals in export trade transactions; they have natural marketing and transportation synergies, thus lowering credit risk; they know the overseas markets; and because they are engaged in exporting, with a variety of small business relationships and flexibility to substitute collateral, they also offer Eximbank a way of cutting administrative costs of the program.

Then, if Eximbank is required under this amendment to promote small business exports along with other Federal entities, such as the Commerce Department and SBA, let's be sure there is not only a cooperative program, but also a coordinated program so that exporters can clearly understand the relationships between all these programs. Let's look at this as the U.S. export financing program, not just an Eximbank, Commerce, or SBA program. A little education can go a long way toward participation of our exporters in these programs.

And, thank goodness, someone is requesting controls on the effectiveness of the set-aside Eximbank funds, but let's even get more specific and set some objectives: How many new clients? How many new transactions under $500,000? How many first-time users? Let's define the measurement criteria before we start and make the program accountable. If we manage the program so that we know the objectives and the results we are trying to achieve, only then can we justify the increased annual percentages alluded to earlier.

Senator Boschwitz, ladies, and gentlemen, on behalf of the Minnesota World Trade Association, I thank you for this opportunity to present our views. If there are any questions, I have brought some of my experts.

[The prepared statement of Ms. Sprada follows:]

DATE: SEPTEMBER 12, 1983

STATEMENT BY:

EVELYN A. SPRADA, PRESIDENT, MINNESOTA WORLD TRADE ASSOCIATION
5235 XERXES AVENUE SOUTH
MINNEAPOLIS, MINNESOTA 55410

BEFORE SUBCOMMITTEE ON:

EXPORT PROMOTION AND MARKET DEVELOPMENT

* * * *

LET ME INTRODUCE THE MINNESOTA WORLD TRADE ASSOCIATION (MWTA). OUR ASSOCIATION IS ALMOST 60 YEARS OLD AND REPRESENTS THE MAJOR TRADE ORGANIZATION IN THE STATE OF MINNESOTA WITH APPROXIMATELY 400 MEMBERS FROM OVER 200 FIRMS. THE MEMBERS ARE ALL INDIVIDUALS REPRESENTING MANUFACTURERS (50 PERCENT) AND SERVICE COMPANIES (50 PERCENT) -- ALL INVOLVED AND/OR INTERESTED IN INTERNATIONAL TRADE.

REPRESENTED MANUFACTURERS ARE SMALL (LESS THAN $1 MILLION TO $25 MILLION IN TOTAL SALES REVENUE) TO MEDIUM-SIZE ($25 MILLION TO $500 MILLION). THEY RANGE FROM BEGINNING EXPORTERS TO COMPANIES WHERE 50 PERCENT OF THEIR SALES ARE REALIZED FROM EXPORT MARKETING EFFORTS. WHILE LARGE MANUFACTURERS DO HAVE REPRESENTATIVES IN OUR ORGANIZATION, THEY ARE NOT THE MAJOR FORCE IN OUR GROUP.

SERVICE COMPANY MEMBERS EMANATE FROM LAW FIRMS, TRANSPORTATION, CONSULTING, BANKING, ACCOUNTING FIRMS, TRADING COMPANIES, AND GOVERNMENT.

MWTA'S OBJECTIVE IS TO FOSTER INTERNATIONAL TRADE THROUGH ITS MONTHLY PROGRAMS, EDUCATIONAL SEMINARS, AND OTHER PROMOTIONS RELATED TO FREE TRADE FOR THE BENEFIT OF OUR MEMBERS.

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THE QUESTIONS WE ARE HERE TO RESPOND TO TODAY RELATE TO THE EXPERIENCES OF EXIMBANK'S FINANCING PROGRAM, THEIR EFFECTIVENESS, AND TO OFFER POSSIBLE SUGGESTIONS.

A QUICK SURVEY OF OUR MEMBERS REVEALED THEIR EXPERIENCES WITH EXIMBANK ARE RELATIVELY LIMITED BECAUSE, FOR A LARGE PART, THEY REPRESENT SMALLER-SIZE MANUFACTURERS WITH TRANSACTIONS OF VERY SMALL SHIPMENTS OF PARTS AND SUPPLIES ($100 TO $5,000) TO EQUIPMENT PURCHASES AMOUNTING ANYWHERE FROM $10,000 TO $500,000. IT HAS BEEN PERCEIVED THAT EXIMBANK HAS NOT BEEN INTERESTED IN THESE SMALL TRANSACTIONS, PERHAPS FRAUGHT WITH ADMINISTRATIVE DETAILS IN ADDITION. THESE MANUFACTURERS HAVE BEEN LEFT IN THE COLD, TO FEND FOR THEMSELVES, BUT AT SUBSTANTIAL RISK TO THEIR PRESENT AND FUTURE GROWTH PROSPECTS. THEIR BUSINESS HAS BEEN LEFT TO DEMANDING IRREVOCABLE LETTERS OF CREDIT AS FINANCING TOOLS TO REDUCE THEIR EXPOSURE, BUT THIS CAN SEVERELY LIMIT THEIR BUSINESS DEVELOPMENT BECAUSE L/C TERMS HAVE BEEN NON-

TRADITIONAL IN SOME TRADING AREAS SUCH AS EUROPE WHERE OPEN ACCOUNT TERMS HAVE USUALLY ABOUNDED.

OVER THE PAST FIVE YEARS, THERE HAS BEEN AN INCREASE OF MARKET COMPETITION THROUGH ATTRACTIVE FINANCING TOOLS. PREVIOUSLY ONE COULD REQUIRE AN IRREVOCABLE LETTER OF CREDIT; HOWEVER, OUR CUSTOMERS HAVE BEEN OFFERED EXCELLENT FINANCING TERMS BY THE JAPANESE AND OTHERS AND HAVE BECOME MORE DEMANDING OF CREATIVE FINANCING TERMS FROM US. IN ADDITION, U.S. BANKS AS OF LATE HAVE EVEN BEEN RELUCTANT IN CERTAIN CASES TO CONFIRM L/CS. FINANCING HAS, THEREFORE, BECOME A MUCH MORE IMPORTANT MARKETING TOOL TODAY THAN IT WAS FIVE YEARS AGO.

EXIMBANK IS PERCEIVED AS BEING MOST INTERESTED IN PROVIDING FUNDS FOR THE LARGE MULTI-BILLION DOLLAR PROJECTS, NOT FINANCING FOR THE SMALL OR, EVEN, MEDIUM-SIZE EXPORTER. WHILE THE USE OF EXIMBANK HAS BEEN "RESTRICTED" TO THE MAJORITY OF OUR MEMBERS DUE TO THE PERCEPTION THAT EXIMBANK IS NOT INTERESTED IN THE SMALLER, LESS PROFITABLE EXPORT TRANSACTIONS, THERE HAVE BEEN INSTANCES OF FINANCING SUPPORT --BUT IT HAS BEEN RIDDLED WITH PROBLEMS. HERE ARE A FEW EXAMPLES THAT WERE PRESENTED TO ME FOR THIS PURPOSE:

EXAMPLE NO. 1: COMPETITIVE FINANCING IS A COMMON COMPLAINT ACROSS THE BOARD. EXIM WILL NOT MEET COMPETITIVE FINANCING UNTIL THE EXPORTER CAN PROVIDE PROOF OF WHAT IS BEING OFFERED BY THE COMPETITION. IN SOME CASES, IT MAY BE BETTER TERMS, OR PERHAPS ITS THE OFFER OF FIXED RATE FINANCING VERSUS FLOATING RATES DURING A PERIOD OF ESCALATING INTEREST RATES. NEVERTHELESS, DOCUMENTING THE DETAILS IS A BURDENSOME TASK FOR THE EXPORTER AND HAS USUALLY BEEN NEXT TO IMPOSSIBLE TO ACCOMPLISH. EVEN IF THEY HAD THE LUXURY OF TIME TO DOCUMENT SUCH CASES TO FIND OUT WHO AND WHAT IS BEING OFFERED, IT WOULD BE TOO LATE TO CONSUMMATE THE SALE EVEN WITH EXIMBANK.

THE MORE COSTLY, LESS ATTRACTIVE FINANCING THAT MUST BE OFFERED BY OUR EXPORTERS IN AN ALREADY STRONG DOLLAR MARKET HAS AN ADDITIONAL SNOWBALL EFFECT ADDING TO OUR PROBLEMS OF COMPETITIVENESS: WITH THE INITIAL FINANCING PACKAGE BEING HIGHER, SO TOO THEN ARE THE DUTIES, THE TAXES, THE HANDLING CHARGES, ETC. WE MUST PAY ATTENTION TO THIS IMPORTANT MARKETING TOOL.

SUGGESTIONS ARE TO SIMPLY REDEFINE THE DOCUMENTATION REQUIRED--MAKE IT SIMPLER; BECOME MORE FLEXIBLE IN FINANCING TERMS; AND PERHAPS EVEN UTILIZE THE U.S. FOREIGN COMMERCIAL CONSULS TO INVESTIGATE EXPEDITIOUSLY TO PROVIDE THE DOCUMENTATION, IF THAT IS AT ALL POSSIBLE.

EXAMPLE NO. 2: THE COVERAGE FOR RISK -- BOTH POLITICAL AND COMMERCIAL - IN ITSELF HAS BECOME A POLITICAL FOOTBALL WITHIN EXIMBANK. HERE'S THE EXAMPLE: WHEN A COUNTRY STOPS THE TRANSFER OF FOREIGN EXCHANGE DUE TO LACK OF RESERVES, IT IS CONSIDERED A POLITICAL RISK AND REIMBURSED AT 100 PERCENT;

IF, HOWEVER, THE COUNTRY CONTINUES TO TRANSFER OUT AS LITTLE AS U.S. $10/MONTH, IT IS A COMMERCIAL RISK RECOVERABLE AT ONLY 90 PERCENT.

WHAT REAL VALUE IS A $10 PAYMENT ON A $5,000, $10,000, OR $500,000 SALE? EXIMBANK CALLS IT A COMMERCIAL RISK, BUT IN REALITY IT SHOULD BE TERMED "POLITICAL" -- OR IT MIGHT BE MORE APPROPRIATELY BE CALLED "DISASTROUS" FOR THE SMALL-TO MEDIUM-SIZE EXPORTER.

SOME SUGGESTIONS: WITH ANY SMALL BUSINESS SET-ASIDE EXIMBANK FUNDS, CHANGE THE REQUIREMENT TO 100 PERCENT COVERAGE FOR BOTH POLITICAL AND COMMERCIAL COVERAGE; OR, AT LEAST, PAY INTEREST AT THE PREVAILING COMMERCIAL RATE ON THE PENDING CLAIM.

EXAMPLE NO. 3: THIS IS AN EXAMPLE OF POOR ADVICE/SUGGESTIONS. ONE OF OUR MEMBER'S FIRM HAD NEGOTIATED A $500,000 SALE TO COUNTRY X AND DESIRED EXIMBANK DIRECT FINANCING. WHILE THE SALE WAS SMALL TO EXIM, IT WAS AGREED TO BECAUSE THE FOREIGN FIRM ALREADY HAD DEVELOPED AN EXCELLENT RELATIONSHIP WITH EXIMBANK. HOWEVER, THE MANUFACTURER WAS REQUIRED TO PROVIDE A CHATTEL MORTGAGE AS COLLATERAL. DUE TO INCOMPLETE ADVICE GIVEN TO THE MANUFACTURER ON HOW TO REGISTER A CHATTEL MORTGAGE IN COUNTRY X, IT TOOK ALMOST ONE YEAR FOR THE MANUFACTURER TO BE PAID -- WHEN IF THEY HAD BEEN ADVISED TO UTILIZE AN ALTERNATIVE METHOD OF DIRECT REGISTRATION

THROUGH THE COUNTRY X'S LOCAL CHAMBER OF COMMERCE, IT COULD HAVE TAKEN ONLY A FEW DAYS. SO WHAT WAS THE IMPACT OF THIS: EXIMBANK PAID OUT NO FUNDS FOR ONE YEAR; THE CUSTOMER WAS EXCEEDINGLY HAPPY AS HE HAD THE MACHINES WORKING FOR ALMOST A FULL YEAR AND HAD NOT YET PAID ANY MONETARY FUNDS. THE REAL LOSER WAS THE MANUFACTURER WHO HAD INCURRED THE COST OF MANUFACTURING, SHIPMENT, PAID HIS TAXES ON THE SALE AS A RECEIVABLE, AND LOST A POSITIVE CASH FLOW IMPACT -- BACK IN THE TIME WHEN INTEREST RATES WERE RUNNING 20 PERCENT!

HOW CAN THESE INSTANCES BE CHANGED? WITH BETTER ADVICE. AND WITH MORE TALENTED, SERVICE-ORIENTED PERSONNEL AT EXIMBANK.

EXAMPLE NO. 4: TRADITIONALLY, BANKS HAVE NOT BEEN ATTRACTED TO PROVIDING FINANCING FOR THE SMALL EXPORTER; THE LARGER BANKS ESPECIALLY HAVE BEEN MORE INTUNED TO WORKING AND SUPPORTING THEIR LARGER CUSTOMERS NEEDS. THE ADMINISTRATIVE COSTS ARE HIGH ON THESE SMALLER DEALS...IT'S BEEN AN ECONOMIC FACT. HOWEVER, EVEN THE LARGER $500 MILLION COMPANIES HAVE BEEN ENCOUNTERING PROBLEMS WITH EXIMBANK GUARANTEES WITH POLITICAL RISKS RUNNING HIGH...THEY'RE NOT INTERESTED IN FINANCING EVEN FOR COMPANIES HAVING WELL-ESTABLISHED BANKING AND CREDIT RELATIONSHIPS.

THESE EXAMPLES OF UNCOMPETITIVE FINANCING, INADEQUATE RISK COVERAGE, POOR ADVICE, LOW-SERVICE ORIENTATION, AND PERCEIVED AND ACTUAL LOW INTEREST IN EXPORT FINANCING FOR SMALL AND EVEN MEDIUM-SIZE BUSINESSES ARE REPRESENTATIVE OF THE PAST INADEQUACIES OF EXIMBANK PROGRAMS. IT IS OUR UNDERSTANDING THAT EXIMBANK HAS WORKED MUCH BETTER FOR THE LARGE, MULTI-BILLION DOLLAR PROJECTS AND FOR MEDIUM-TO-LARGE SIZE COMPANIES (AND SOMETIMES NOT EVEN THEN). THE FUNDS HAVE AND THE INTEREST ON EXIM'S BEHALF HAS ALWAYS BEEN THERE FOR THIS LARGER SEGMENT.

WE ALSO BELIEVE THAT MORE AVAILABLE EXPORT FUNDS AND PROGRAMS MUST BECOME MORE AVAILABLE FOR SMALL BUSINESS. WHY? NOT ONLY BECAUSE THE U.S. DEPARTMENT OF COMMERCE SAYS THERE ARE 20,000 BUSINESSES IN OUR COUNTRY WHICH COULD BE EXPORTING AND WHICH COULD CONCEIVABLY BRIDGE THE FORTHCOMING $60-$100 BILLION TRADE GAP -- BUT BECAUSE SMALL FIRMS ARE WHERE INNOVATION IS NURTURED AND TECHNOLOGY IS SPAWNED...IT IS WHERE THE FUTURE MEDIUM AND LARGE-SIZE COMPANIES ARE BEING BORN. SMALL FIRMS ARE PROVIDING THE MAJORITY OF NEW JOBS FOR OUR CITIZENS. WE MUST NOW ALLOW THESE SMALL AND MEDIUM SIZE BUSINESSES TO BE STRANGLED DURING THEIR GROWTH PHASES.

IN RESPONDING TO SENATOR BOSCHWITZ'S AMENDMENT TO THE BILL (S.869) TO AMEND THE EXPORT-IMPORT BANK ACT OF 1945, WE ARE ENLIGHTENED AND HOPE THAT SET-ASIDE FUNDS CAN BE MADE AVAILABLE ON AN INCREASING PERCENTAGE BASIS OVER THE NEXT SIX YEARS. NOT ONLY ARE SMALL BUSINESSES IN THE $1 MILLION TO $25 MILLION RANGE BEEN AFFECTED, BUT THE SOMEWHAT LARGER LOCAL BUSINESSES UP TO $500 MILLION HAVE ENCOUNTERED THE EXACT SAME PROBLEMS. WE MUST SEE SOME DRASTIC CHANGES IN THE MEDIUM-TERM FINANCING AREA AS WELL.

THE ESTABLISHMENT OF A PROGRAM THAT PROVIDES LINES OF CREDIT OR GUARANTEES TO LOCAL BANK CONSORTIAS, EXPORT TRADING COMPANIES, ETC. IS MOST WORTHY OF CONSIDERATION. IN FACT, THE OVERRIDING PURPOSE OF THE EXPORT TRADING ACT PASSED JUST LAST YEAR WAS TO FOSTER GREATER CAPITAL INVESTMENT AND DEVELOPMENT OF U.S. ETCs. TRADING COMPANIES WERE FOUND TO BE CRITICAL TO TAPPING THE EXPORT POTENTIAL OF SMALL AND MEDIUM-SIZED AMERICAN BUSINESSES. ETCs BRING SIGNIFICANT ADVANTAGES BECAUSE THEY ACT AS PRINCIPALS IN EXPORT TRADE TRANSACTIONS; THEY HAVE NATURAL MARKETING AND TRANSPORTATION SYNERGIES THUS LOWERING CREDIT RISK; THEY KNOW THE OVERSEAS MARKETS; AND BECAUSE THEY ARE ENGAGED IN EXPORTING, WITH A VARIETY OF SMALL BUSINESS RELATIONSHIPS AND FLEXIBILITY TO SUBSTITUTE COLLATERAL, THEY ALSO OFFER EXIMBANK A WAY OF CUTTING ADMINISTRATIVE COSTS OF THE PROGRAM.

THEN, IF EXIM IS REQUIRED UNDER THIS AMENDMENT TO PROMOTE SMALL BUSINESS EXPORTS ALONG WITH OTHER FEDERAL ENTITIES (COMMERCE DEPARTMENT/SBA), LET'S BE SURE THERE IS NOT ONLY A COOPERATIVE PROGRAM, BUT ALSO A COORDINATED PROGRAM SO THAT EXPORTERS CAN CLEARLY UNDERSTAND THE RELATIONSHIPS BETWEEN ALL THESE PROGRAMS....LET'S LOOK AT THIS AS THE U.S. EXPORT FINANCING PROGRAM, NOT JUST AN EXIM, COMMERCE, OR SBA PROGRAM. A LITTLE EDUCATION CAN GO A LONG WAY TOWARDS PARTICIPATION IN THE PROGRAMS.

AND, THANK GOODNESS, SOMEONE IS REQUESTING CONTROLS ON THE EFFECTIVENESS OF THE SET-ASIDE EXIMBANK FUNDS; BUT LET'S EVEN GET MORE SPECIFIC AND SET SOME OBJECTIVES: HOW MANY NEW CLIENTS, HOW MANY NEW TRANSACTIONS UNDER $500,000; HOW MANY FIRST-TIME USERS--LET'S DEFINE THE MEASUREMENT CRITERIA BEFORE WE START AND MAKE THE PROGRAM ACCOUNTABLE. IF WE MANAGE THE PROGRAM SO THAT WE KNOW THE OBJECTIVES AND THE RESULTS WE ARE TRYING TO ACHIEVE, ONLY THEN CAN WE JUSTIFY THE INCREASED ANNUAL PERCENTAGES ALLUDED TO EARLIER.

SENATOR BOSCHWITZ, LADIES AND GENTLMEN, ON BEHALF OF THE MINNESOTA WORLD TRADE ASSOCIATION, I THANK YOU FOR THIS OPPORTUNITY TO PRESENT OUR VIEWS. I, ALONG WITH TWO OTHER MEMBERS OF MWTA'S BOARD OF DIRECTORS, YVONNE HALPAUS AND GORDON WHITE--BOTH OF WHOM ARE HIGHLY EXPERIENCED IN THE USE OF EXPORT FINANCING TOOLS, WILL ENTERTAIN QUESTIONS.

Senator BOSCHWITZ. We will defer the questions. It was a very good statement. It presented some of the problems, as we have heard before, and gave actual examples which made the problems more meaningful.

We have included in our amendment to the Export-Import Bank reauthorization bill some of the things that you identify as problems. We will discuss those when we get into our discussion period.

Krikor, we would now very much like to hear from you.

We have with us a man who is not only doing this as a matter of study or as a matter of Government agencies with which he is associated, but actually being involved in the importing and exporting of goods.

STATEMENT OF KRIKOR MOKHTARIAN, PRESIDENT, LEVANT INDUSTRIAL DEVELOPMENT, INC., ST. PAUL, MINN.

Mr. MOKHTARIAN. I would like to address the Eximbank issue by discussing my company's international trade activities. Levant is a St. Paul-headquartered international trade and services company.

In the trading area we specialize in selling U.S.-produced, agriculture-related products to foreign buyers; for example, water drilling equipment, irrigation equipment, farm equipment, and fertilizer. Our subsidiary company, LIDCONSULT, provides expertise on international business matters to United States and foreign businesses with international markets and interests. International Traffic Corp. [ITC] is our wholly owned freight forwarding company which specializes in transporting goods and related services for exporters of all kinds.

Levant has offices in St. Paul, Washington, D.C., Houston, Beirut, Kuwait, and Jeddah. The Beirut office is not in operation at the moment due to the difficulties there.

Levant has not been an active user of the Export-Import Bank funding or guarantees to date. Many of our transactions are relatively small, under $100,000, and appear to be unattractive to Eximbank and other banks for various reasons.

The lack of attraction stems from the small per transaction dollar amounts and the unguaranteed foreign exposure residual being so small as to be uneconomical for the banks. Specifically, if we are bidding on a $100,000 package, we might be able to get it financed provided one of our banks is willing to take credit exposure to our foreign buyer for about $8,500. If the buyer puts $15,000 down, as normally required, $85,000 is financed and only 90 percent of commercial exposure is covered.

To solve this problem, buyer government guarantees could be used to make this a sovereign transaction for Eximbank which means that Eximbank would guarantee 100 percent of the exposure. However, the cost of these guarantees are usually not competitive with foreign government-offered rates, especially when base lending rates from foreign lenders are already below Eximbank's rates.

For example, we are selling to foreign buyers who are offered similar products from France, Brazil, Japan, and other countries. We not only compete with the suppliers from those countries, but we also compete with the Government-supported export finance au-

thorities such as COFACE, France; FINEX, Brazil; and JEXIM, Japan. Some of these are members of the Organization for Economic Cooperation and Development [OECD] and some are not. As all of us are aware, though, even the OECD-member countries, such as France, manage to consistently better Eximbank's terms.

It has been our experience that these foreign finance authorities are offering rates and terms which are more liberal than those we Americans can offer using Eximbank. If that problem is added to the problem of the high value of the dollar, there are obvious difficulties for U.S. exporters.

For the U.S. products which we sell, the Middle East is our major market, and Africa provides our next target market. Probably the greatest problems we face in this new market are the aggressive finance and insurance programs of competitors' governments. I fully support Senator Boschwitz' and others' efforts to amend the Export-Import Bank bill to allow U.S. companies to do business in the international marketplace on an equal footing with our foreign competitors.

One, I support the small business set-aside proposal for Eximbank and would encourage an additional mechanism which would provide to small business a greater set-aside should the proposed measures prove to be significantly successful in promoting small business exports.

Two, I support the effort to achieve fully competitive rates and terms proposed in Senate bill 869, assuming that this means fully competitive with foreign government-supported facilities.

Three, I support the total guarantee by Eximbank of commercial losses up to $100,000. Currently, Eximbank will normally guarantee only up to 90 percent.

Four, while not being completely aware of how the proposed consortia use of Eximbank facilities will function as proposed in S. 869, I feel that this is an important and innovative approach which I can support at least in principle. I believe that a goal of this approach should be to foster a more liberal and supportive approach at Eximbank and FCIA as regards small business exports. Specifically, I propose the following:

(A) Small businesses should not have the same information and application requirements as large businesses. The time, cost, and manpower burden of handling these procedures is simply too great for many small businesses. Eximbank should have an office which exists only to assist small business. I am not talking about merely encouraging us in our export efforts. I mean actually assisting us in obtaining credit information, making application, and the other necessary work. In other words, the office would be there at Eximbank to truly help small business to get deals done rather than to only lend money on receipt of properly completed extensive forms identical to those required of our Nation's largest exporters.

(B) Eximbank should make it possible and advantageous for small business exporters to offer foreign buyers Eximbank financing early in the deal, before the foreign competitor has proposed financing and beaten us to the business. Currently, we suspect that most small businesses do not offer Eximbank financing to potential foreign buyers, but only respond when they become aware that

they must offer such financing or better on a specific deal or face losing it.

(C) Eximbank should be organized to understand that U.S. small businesses frequently sell to foreign small businesses, neither having the capabilities to handle the paperwork required to receive necessary financing from Eximbank. Eximbank should provide a means by which the application requirements are proportionately less rigorous to the size of the transaction and the exporter. A typical example might be our trying to sell in Tunisia, an attractive, relatively open-economy market. We do not normally include financing in our initial quotation because the financing we can offer is usually not a selling point, but our foreign competition does. They not only offer financing, but they commit to the financing in most cases. By the time we are invited to try to counteroffer, we are up against the double problem of the high value of the dollar and Government-supported financing. If we do try to respond, we need 3 years' financials, a formal application with preliminary approval, and a U.S. commercial bank interested in taking the unguaranteed portion of the package.

In conclusion, I have enjoyed being able to share my thoughts with you today. We are merely scratching the surface of the international business potential for small and large U.S. businesses. I appreciate your efforts to listen to the needs of smaller businesses, and I believe that by incorporating some of my suggestions and those of many others into active law, we will be able to enjoy the fruits of successful international trade.

Thank you, Senator.

[The prepared statement of Mr. Mokhtarian follows:]

LIDINC

LEVANT INDUSTRIAL DEVELOPMENT INC.

416 BREMER BUILDING • SAINT PAUL, MINNESOTA 55101 • U.S.A. • TEL: 612/293-1395 • TELEX: 297068 or 6879033 LIDINC

September 12, 1983

United States Senate Small Business Committee Hearing

Testimony Concerning Export Financing for Small Businesses

"MY NAME IS KRIKOR MOKHTARIAN. I AM THE PRESIDENT OF LEVANT INDUSTRIAL DEVELOPMENT, INC. LEVANT IS A ST. PAUL-HEADQUARTERED INTERNATIONAL TRADING AND SERVICES COMPANY.

IN THE TRADING AREA, LEVANT SPECIALIZES IN SELLING U.S. PRODUCED AGRICULTURE-RELATED PRODUCTS TO FOREIGN BUYERS, FOR EXAMPLE, WATER DRILLING, IRRIGATION, AND FERTILIZER. OUR SUBSIDIARY COMPANY, LIDCONSULT, PROVIDES EXPERTISE ON INTERNATIONAL BUSINESS MATTERS TO U.S. AND FOREIGN BUSINESSES WITH INTERNATIONAL MARKETS AND INTERESTS. INTERNATIONAL TRAFFIC CORPORATION (ITC) IS OUR WHOLLY OWNED FREIGHT FORWARDER WHICH SPECIALIZES IN TRANSPORTING GOODS AND RELATED SERVICES FOR EXPORTERS OF ALL KINDS.

LEVANT HAS OFFICES IN ST. PAUL, WASHINGTON, D.C., HOUSTON, BEIRUT, KUWAIT, AND JEDDAH.

LEVANT HAS NOT BEEN AN ACTIVE USER OF THE EXPORT IMPORT BANK (EXIM) FUNDING OR GUARANTEES TO DATE. MANY OF OUR TRANSACTIONS ARE RELATIVELY SMALL (UNDER $100,000) AND APPEAR TO BE UNATTRACTIVE TO EXIM AND OTHER BANKS FOR VARIOUS REASONS.

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THE LACK OF ATTRACTION STEMS FROM THE SMALL AMOUNTS AND THE UNGUARANTEED FOREIGN EXPOSURE RESIDUAL BEING SO SMALL AS TO BE UNECONOMICAL FOR THE BANKS. SPECIFICALLY, IF WE ARE BIDDING ON A $100,000 PACKAGE, WE MIGHT BE ABLE TO GET IT FINANCED PRIVIDED ONE OF OUR BANKS IS WILLING TO TAKE CREDIT EXPOSURE TO OUR FOREIGN BUYER FOR ABOUT $8,500. (IF THE BUYER PUTS $15,000 DOWN, AS REQUIRED, $85,000 IS FINANCED AND ONLY 90% OF COMMERCIAL EXPOSURE IS COVERED.)

TO SOLVE THIS PROBLEM, LOCAL GOVERNMENT GUARANTEES COULD BE USED TO MAKE THIS A SOVEREIGN TRANSACTION. HOWEVER, THESE ARE USUALLY NOT COMPETITIVE WITH FOREIGN GOVERNMENT GUARANTEED RATES ESPECIALLY WHEN BASE LENDING RATES FROM FOREIGN COMMERCIAL LENDERS ARE ALREADY BELOW EXIM'S RATES. FOR EXAMPLE, WE ARE SELLING TO FOREIGN BUYERS WHO ARE OFFERED SIMILAR PRODUCTS FROM FRANCE, BRAZIL, JAPAN AND OTHER COUNTRIES. WE NOT ONLY COMPETE WITH THE SUPPLIERS FROM THOSE COUNTRIES BUT WE ALSO COMPETE WITH THE GOVERNMENT-SUPPORTED EXPORT FINANCE AUTHORITIES SUCH AS COFACE (FRANCE), FINEX (BRAZIL), AND JEXIM (JAPAN). SOME OF THESE ARE MEMBERS OF THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD) AND SOME ARE NOT. AS ALL OF US ARE AWARE, THOUGH, EVEN THE OECD-MEMBER COUNTRIES MANAGE TO CONSISTENTLY BETTER EXIM'S TERMS.

IT HAS BEEN OUR EXPERIENCE THAT THESE FOREIGN FINANCE AUTHORITIES ARE OFFERING RATES AND TERMS WHICH ARE MORE LIBERAL THAN THOSE WE AMERICANS CAN OFFER USING EXIM. IF THAT PROBLEM IS ADDED TO THE PROBLEM OF THE HIGH VALUE OF THE DOLLAR, THERE ARE OBVIOUS DIFFICULTIES FOR U.S. EXPORTERS.

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FOR THE U.S. PRODUCTS WHICH WE SELL, THE MIDDLE EAST IS OUR MAJOR MARKET, AND AFRICA PROVIDES OUR NEXT TARGET MARKET. PROBABLY THE GREATEST PROBLEMS WE FACE IN THIS NEW MARKET ARE THE AGGRESSIVE FINANCE AND INSURANCE PROGRAMS BY COMPETITORS. I FULLY SUPPORT SENATOR BOSCHWITZ'S AND OTHERS' EFFORTS TO AMEND THE EXPORT-IMPORT BANK BILL TO ALLOW U.S. COMPANIES TO DO BUSINESS IN THE INTERNATIONAL MARKETPLACE ON AN EQUAL FOOTING WITH OUR FOREIGN COMPETITORS:

1. I SUPPORT THE SMALL BUSINESS SET-ASIDE PROPOSAL FOR EXIM AND WOULD ENCOURAGE AN ADDITIONAL MECHANISM WHICH WOULD PROVIDE TO SMALL BUSINESS A GREATER SET ASIDE SHOULD THE PROPOSED MEASURES PROVE TO BE SIGNIFICANTLY SUCCESSFUL IN PROMOTING SMALL BUSINESS EXPORTS.
2. I SUPPORT THE EFFORT TO ACHIEVE "FULLY COMPETITIVE RATES AND TERMS" PROPOSED IN SENATE BILL 869 ASSUMING THAT THIS MEANS FULLY COMPETITIVE WITH FOREIGN GOVERNMENT-SUPPORTED FACILITIES.
3. I SUPPORT THE TOTAL GUARANTEE BY EXIM OF COMMERCIAL LOSSES UP TO $100,000. CURRENTLY, EXIM WILL NORMALLY GUARANTEE ONLY UP TO 90%.
4. WHILE NOT BEING COMPLETELY AWARE OF HOW THE PROPOSED "CONSORTIA" USE OF EXIM FACILITIES WILL FUNCTION AS PROPOSED IN S.869, I FEEL THAT THIS IS AN IMPORTANT AND INNOVATIVE APPROACH WHICH I CAN SUPPORT IN AT LEAST PRINCIPLE. I BELIEVE THAT A GOAL OF THIS APPROACH SHOULD BE TO FOSTER A MORE LIBERAL AND SUPPORTIVE APPROACH AT EXIM AND FCIA AS REGARDS TO SMALL BUSINESS EXPORTS. SPECIFICALLY, I PROPOSE THE FOLLOWING:

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A. SMALL BUSINESSES SHOULD NOT HAVE THE SAME INFORMATION AND APPLICATION REQUIREMENTS AS LARGE BUSINESSES. THE TIME, COST, AND MANPOWER BURDEN OF HANDLING THESE PROCEDURES IS SIMPLY TOO GREAT FOR SMALL BUSINESS. EXIM SHOULD HAVE AN OFFICE WHICH EXISTS ONLY TO ASSIST SMALL BUSINESS. I AM NOT TALKING SIMPLY ABOUT ENCOURAGING US IN OUR EXPORT EFFORTS, I MEAN ACTUALLY ASSISTING US IN OBTAINING CREDIT INFORMATION, MAKING APPLICAITON AND THE OTHER NECESSARY WORK. IN OTHER WORDS, THE OFFICE WOULD BE THERE AT EXIM TO TRULY HELP SMALL BUSINESS TO "GET DEALS DONE" RATHER THAN TO ONLY LEND MONEY ON RECEIPT OF PROPERLY COMPLETED EXTENSIVE FORMS IDENTICAL TO THOSE REQUIRED OF OUR NATION'S LAGEST EXPORTERS.

B. EXIM SHOULD MAKE IT POSSIBLE AND ADVANTAGEOUS FOR SMALL BUSINESS EXPORTERS TO OFFER FOREIGN BUYERS EXIM FINANCING EARLY IN THE DEAL--BEFORE THE FOREIGN COMPETITOR HAS PROPOSED FINANCING AND BEATEN US TO THE BUSINESS. CURRENTLY, WE SUSPECT THAT MOST SMALL BUSINESSES DO NOT OFFER EXIM FINANCING TO POTENTIAL FOREIGN BUYERS, BUT ONLY RESPOND WHEN THEY BECOME AWARE THAT THEY MUST OFFER SUCH FINANCING (OR BETTER) ON A SPECIFIC DEAL OR FACE LOSING IT.

C. EXIM SHOULD BE ORGANIZED TO UNDERSTAND THAT U.S. SMALL BUSINESSES FREQUENTLY SELL TO FOREIGN SMALL BUSINESSES, NEITHER HAVING THE CAPABILITIES TO HANDLE THE PAPERWORK REQUIRED TO RECEIVE NECESSARY FINANCING FROM EXIM. EXIM

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SHOULD PROVIDE A MEANS BY WHICH THE APPLICATION REQUIREMENTS ARE PROPORTIONATELY LESS RIGOROUS TO THE SIZE OF THE TRANSACTION AND THE EXPORTER. A TYPICAL EXAMPLE MIGHT BE OUR TRYING TO SELL IN TUNISIA--A FINE, RELATIVELY OPEN ECONOMY MARKET. WE DO NOT NORMALLY INCLUDE FINANCING IN OUR INITIAL QUOTATION BECAUSE THE FINANCING WE CAN OFFER IS USUALLY NOT A SELLING POINT. BUT OUR FOREIGN COMPETITION DOES. THEY NOT ONLY OFFER FINANCING--THEY COMMIT TO THE FINANCING IN MOST CASES. BY THE TIME WE ARE INVITED TO TRY TO COUNTEROFFER WE ARE UP AGAINST THE DOUBLE PROBELM OF THE HIGH DOLLAR AND SUBSIDIZED FINANCING. IF WE DO TRY TO RESPOND, WE NEED 3 YEARS' FINANCIALS, A FORMAL APPLICAITON WITH PRELIMINARY AFFROVAL, AND A U.S. COMMERCIAL BANK INTERESTED IN TAKING THE UNGUARANTEED PORTION OF THE PACKAGE.

IN CONCLUSION, I HAVE ENJOYED BEING ABLE TO SHARE MY THOUGHTS WITH YOU TODAY. WE ARE MERELY SCRATCHING THE SURFACE OF THE INTERNATIONAL BUSINESS POTENTIAL FOR SMALL AND LARGE U.S. BUSINESSES. I APPRECIATE YOUR EFFORTS TO LISTEN TO THE NEEDS OF BUSINESS AND I BELIEVE THAT BY INCORPORATING SOME OF MY SUGGESTIONS AND THOSE OF MANY OTHERS INTO ACTIVE LAW WE WILL BE ABLE TO ENJOY THE FRUITS OF SUCCESSFUL INTERNATIONAL TRADE. THANK YOU.

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Senator BOSCHWITZ. I wonder if you would expand a little bit. Your competition goes in prepared to commit to financing at the beginning. Is that through COFACE, FINEX, or JEXIM?

Mr. MOKHTARIAN. Yes.

Senator BOSCHWITZ. What are the requirements that they make?

Mr. MOKHTARIAN. They are very flexible. They take it case by case and try to accommodate everybody. Recently, COFACE financed a project in Lebanon for $50 million for a 2-year period at 8 percent.

Senator BOSCHWITZ. Apparently, they are able to get commitments even in advance of making the contact?

Mr. MOKHTARIAN. That seems to be true.

Senator BOSCHWITZ. Eximbank's procedures are cumbersome?

Mr. MOKHTARIAN. Very much so. We cannot compete. We cannot negotiate. In Algeria we face the same problems and the same problems in other parts of North Africa. We cannot negotiate. If we have a financing package, it is always unattractive to them. It is never a selling point. Many countries set interest rate limits based upon other countries' financing offers. We have to pile the difference in the price and then try to compete. We have done this before. We offered Algeria financing at 8 percent to try to compete with Brazil, and we were not successful because we had to pile the difference back into the price. We had to add the difference in the interest to the price of the product.

Senator BOSCHWITZ. The dollar must also be quite a problem at the present time?

Mr. MOKHTARIAN. Yes.

Senator BOSCHWITZ. What are the rates that the French, the Brazilians, and the Japanese are able to offer? How does that interact with the requirements of the OECD?

Mr. MOKHTARIAN. OECD requirements appear to be very flexible. Not only that, but non-OECD countries such as Brazil are going in at 7 percent, and I have seen deals at 7 percent. France is taking the lead among OECD countries in being very flexible, at least the ones we have seen, as low as 6, 7, 8, and 9 percent.

I met a gentleman in Saudi Arabia from the French COFACE. They do not appear to have a set financing policy, although they have to follow the OECD rules and regulations to a certain degree. It appears to be more or less, a discretionary government decision. It is more of a political decision than anything else. They buy the business when and if they need it.

Senator BOSCHWITZ. Sue, I wonder if you would comment on Jann Olsten's statement that the State of Minnesota has not recognized DISC, as we also heard that the DISC rules are probably going to be subject to change. Does the State have any position with respect to DISC, with respect to the new variation on DISC?

Ms. HALVERSON. Senator, I am not familiar with what might be going on in the tax area with respect to DISC. You are probably aware that Mayor George Latimer of St. Paul is heading a commission which is studying Minnesota tax laws in general and may get involved in the impact of tax laws on businesses and might be considering this kind of thing.

Senator BOSCHWITZ. Do you intend to write Mayor Latimer a letter and state that this one of the elements which may be constraining, to some degree, the export of Minnesota manufacturers?

Ms. HALVERSON. I will certainly bring this matter to the attention of William Detrich, who is director of the Trade Office, for his consideration.

Senator BOSCHWITZ. I would appreciate that. It would be a worthwhile thing to do.

Why don't we begin a dialog among the members of the panel? Dan, we welcome your participation in it as well, and your participation, Sue, too.

I believe we can start with Jann Olsten.

Several times Evelyn and others have made the suggestion that with any small business set-aside of Eximbank funds, we should change the requirements to 100 percent coverage for both political and commercial insurance coverage. We have been discussing that, and we believe we will be able to include that in the amendment, as well as the comments that you made with respect to the consortia, to establish a program that provides lines of credit or guarantees to local bank consortias. We will also make our amendment flexible or expand it enough to include that.

Do any of you have comments on one another's testimonies?

Mr. OLSTEN. Senator, I just have a couple observations.

First of all, in terms of the 100 percent loan guarantee, or the commercial risk as well as the political risk being offered by Eximbank, I think this is something, at least based on a conversation I had with some folks at Eximbank last week, they may even be looking at themselves. It may be something they are willing to accept, if you were to work that into the amendment.

I have a couple other specific points about your amendment. I believe you do have a requirement that it is not necessary, in order to get the Eximbank financing, that the business first be denied financing by the SBA. I think that is a very important provision in the amendment. I really encourage that you fight to maintain that. It is not unusual in some other programs that SBA must first be given a shot at it and then turn it down. That would only add to the awkwardness and time delays in getting the financing. Frankly, it would be a very easy way to turn around and say that the reason we were not more successful in loaning the funds is because not enough people were first turned down by SBA. I think that would really defeat the purpose of the amendment, if that requirement were allowed to be included.

Second, in establishing the programs that your amendment calls for, for the consortia of banks, trading companies, et cetera, I think the comments by a few people here this morning illustrate the importance of getting some State as well as private sector people involved in developing the programs themselves, rather than leaving it entirely up to the Eximbank to do it, if some sort of working group could be put together to sit down and give some really practical advice as to what in these programs would be helpful to the private sector, so that when those programs are established, they are in fact something that would be workable.

Senator BOSCHWITZ. You are talking about advice to Eximbank?

Mr. OLSTEN. That is right.

Then I just have a general question, and perhaps Mr. Brian can help. While I am not here representing the SBA, inasmuch as I sit on its advisory council, I do have some interest in what might be working and not working, particularly through its export revolving line of credit. I wonder if you are familiar with it. If so, are there some problems that you know of, at least in the SBA, which might be corrected in order to increase the use of what appears, at least on the surface, to be a pretty good program?

Mr. BRIAN. I am familiar with the program. The bank is familiar with the program. However, we have the same situation that we have with many of the Government programs. It is a cumbersome program, difficult to administer, and not well known.

I will have to state that banks have not taken a lead in marketing these programs, for obvious reasons. They are not profitable. They do not result in profitable transactions. They have not been marketed by the private banking sector.

The job which has been done in making the exporters aware of these programs has been nominal, to my understanding. Coupled with the hesitancy of financial institutions to get involved has resulted in very little success for the program.

Mr. OLSTEN. From a practical standpoint, is there anything that—obviously, there is something, but what would you recommend that the SBA do about it to make it more attractive? Is it mainly the paperwork aspect of it or just the cost of the financing?

Mr. BRIAN. It is a little bit of both. We all know economics, that on a larger transaction, the overhead is the same as on a smaller transaction. The size of the transactions is small; the paperwork is large. Usually, there is not enough spread in the product being exported to cover the interest, plus the administration of this type of transaction.

I do not have any specific suggestions. I have not been involved directly in any of these transactions, but I know that we have done a few, but mainly when customers have come to us with the idea.

Mr. OLSTEN. Since you have asked for suggestions, it may be something worthwhile to have the SBA look into this. Here is something that, at least on the surface, appears to be a pretty good program, but all the programs in the world are not going to solve the problem if it cannot be used. Perhaps some sort of refinement of the program or changes need to be made if it is going to be used.

Senator BOSCHWITZ. I notice that Krikor said that small businesses should not have the same information and application requirements as large businesses. What did you specifically have in mind that could be eliminated? I must tell you I am not familiar with the actual application or the actual information required.

Mr. MOKHTARIAN. The procedure is long. You have to qualify for each and every deal in the Eximbank program. There are a lot of questions and redtape. It is 4 pages. I do not have one in front of me. I should have brought an application form.

Eliminating that would probably be making it shorter, making it more adaptable to the small businesses. I do not have specifics right now, but I can provide those. It might be more helpful if Eximbank were to actively assist smaller businesses in complying with Eximbank's application requirements.

Senator BOSCHWITZ. That would be interesting, how it can be made simpler, so that small business will have a better shot at it.

Dan, Eximbank deals with only about 300 of the 15,000 banks in the country. How can we get more banks involved in the whole Eximbank process?

Mr. BRIAN. First of all, the active arm of Eximbank, as far as the majority banks are concerned, has been FCIA. Eximbank has delegated a tremendous amount of the overseas risk to this organization.

As has been mentioned here, that Eximbank is normally used for larger transactions, one-shot deals, term financing, et cetera. Any time you do a short-term working capital transaction or something on a revolving basis, the work would always be done with FCIA. Of course, Eximbank reinsures FCIA.

We have a real problem right now because FCIA has sustained tremendous losses, especially in Latin America this year. Someone correct me here if they know any better, but I do not know of any transactions that have been approved for insurance this year in Latin America, very few, if any. We ask, "Are you open for business?" FCIA's response is "Yes, we are." Applications are made but nothing has been accepted.

Our relationship has been fairly good with the Eximbank. Our response has been good. Our claim results have been good. However, as I stated, it is geared to a completely different type of transaction than we are talking about here. It would be the larger transaction, more longer term in nature, a one-shot deal.

On the other hand, what we are talking about is getting Eximbank involved in more of the FCIA-type responsibilities.

I think in the past we have been somewhat responsive to the needs under FCIA policies, insurance policies, et cetera. There have been problems, but some companies in the twin cities have been very successful with the FCIA policies and the ability to have a discretionary authority under that policy, whereby they can commit on their own.

However, with the economic problems encountered now, the progress that was being made in that area no longer exists. Policies have been canceled and premiums are very high. For example, the policy that we now have at the bank, the premiums are so high that we virtually are uncompetitive in bidding, and our discretionary authority has been cut back significantly to where it is insignificant right now.

With Eximbank, our relationship as a commercial bank is very good, and we continue to work with them quite well. However, they are not geared to the type of transaction we are talking about here.

Senator BOSCHWITZ. Krikor, you also mentioned that Eximbank should make it possible for small business exporters to offer foreign buyers Eximbank financing early in the deal. From what I gather of the testimony and what I have understood before, Eximbank is a rather ponderous organization, as many bureaucracies are.

How do you propose we could achieve that? How do the foreign banks or the equivalents of Eximbank in other countries, such as COFACE, FINEX, and JEXIM, achieve that?

Mr. MOKHTARIAN. Their rates are lower, to start with. Then they listen to the executive from the manufacturer or from the exporter

before he is putting the deal together, when it is at the quotation stages.

Here at Eximbank, once we lost a deal and we went back to them, and they told us that if we had come to them, they would have lowered the rate. However, when you are bidding, if it is a tender and you have only one chance, you do not have too many chances to negotiate.

What the French do is that the bidder goes to COFACE and says, "It is a sensitive deal and I need your best price," and they are flexible enough to drop it so that the deal is consummated, or at least has a good chance to be consummated.

Senator BOSCHWITZ. They are just more flexible than the Eximbank?

Mr. MOKHTARIAN. Yes. Eximbank wants to be flexible. I have a feeling they want to do that, but they are always flexible after the fact, which in a tender is meaningless. When a tender is opened, you do not have too many chances. You are not called for negotiations. You are only called for further discussions at their discretion, and they do not usually do that.

Senator BOSCHWITZ. As a practical matter, can Eximbank compete with the kind of rates you are talking about, 6 and 7 percent? They have to go to the Federal financing bank to borrow it, and then what do they normally charge between their cost of money and what they loan it for? They are supposed to be self-sustaining from the standpoint of covering their own costs, and so forth.

Mr. MOKHTARIAN. As I mentioned, it is more subsidized by the Government. I do not know, but I think it is more of a problem here with us than anywhere else in the world. It should be more of a Government decision here, if we are going to subsidize our exports. Some of the countries—Japan does that to solve their unemployment problems.

The way we look at things, if we are willing to subsidize our exports, this is one of the best ways to do it, to cut even unemployment down. However, I am going into different philosophies at this stage, and I do not like to do that.

Practically, no; 5, 6, or 7 percent is definitely subsidized. Somebody is paying for the difference. Is the Government willing to do that? I do not know.

Senator BOSCHWITZ. Frankly, I think it would be difficult budgetarily now. As long as Eximbank borrows at the FFB and pays the going rate plus an eighth of a point, they are not "on budget," as they say. However, as soon as we begin the business of subsidized loans, the entire loans becomes a budgetary item. Therefore, at least at the moment, I would imagine that there would not be the flexibility to do that, though it would be very nice, indeed, I understand.

Let me ask if any of the other members of the panel have comments on anything that has transpired up to this point.

Ms. SPRADA. I think many of the things that Krikor has said and what I have said have some similarities. We have spoken of competitive financing. I think our members, as well as Mr. Mokhtarian, have had these same experiences. It is the experience of quite a number of people in the competitive financing area.

Senator BOSCHWITZ. As I listen to those things, I am almost surprised that we export at all, that there is any competitive situation. Yet, while the numbers are not as good as they have been in recent years—and these charts, as you can see, cover various fields of export—nevertheless, we still export a very, very large amount of material.

Ms. SPRADA. As I stated in my comments, I think it has become increasingly competitive in the international market, particularly in the past 5 years.

Is that what you have found?

Mr. MOKHTARIAN. Yes, definitely.

However, the people, especially developing nations, they are still willing to pay a premium for American products. That is one of the reasons we are still exporting. They are still willing to pay the premium. They still prefer a Chevrolet to the Datsun, although a number of Datsuns are being sold I am talking about the Middle East. There is that element that they still prefer American goods. I hope to God we will not lose that advantage for our productivity.

Mr. BRIAN. Senator, there are three major, general problems that we cannot address here. One is the attitude of the United States as far as exporting is concerned. People are just beginning to become concerned with export markets. We have been rather provincial in this regard, and we are many years behind many of the countries in our thoughts and our feelings toward exports.

Two is the strength of the dollar, which all of the programs in the world are not going to help, and three is the cost of our products relative to other products in the world, due to lower labor costs.

Those are the major problems. The programs that we are working on will help, but a shift in any one of those three major areas would do a lot more than any programs that we could put together to make ourselves more competitive.

I feel that one movement which we are making here in Minnesota—and Sue will tell you that I was very critical of the attempts to encourage exports through the Minnesota Export Finance Authority. I am a director of that organization now, and I feel something that would be of tremendous help is for Eximbank to provide to an organization such as that a master guarantee whereby we could bring the decisionmaking from Washington. The State of Minnesota is willing to put up a couple of million dollars. It is willing to assume some of the risk. We would like to lay off some of that risk to the Eximbank.

Organizations such as this can respond quicker. It would be able to make decisions in a manner whereby we could be more competitive. At present, we are trying to convince Eximbank to help us in reinsuring our risk that we are going to assume through the agency. That is something specifically that I think would help.

Senator BOSCHWITZ. We have included that in the amendment that we are offering to S. 869. Just what you are seeking to do will be done.

Mr. BRIAN. I believe the key would be delegation of credit-making decisions. It will not help at all if every transaction that comes to us we have to refer it to the Eximbank for approval. There would be less reason to implement such a program if we did

not have some kind of flexibility, some kind of discretionary authority within the State.

Senator BOSCHWITZ. This is Tim Bergan, my legislative assistant. I just asked him whether or not our amendment is broad enough to cover that. I presume it is.

Mr. BERGAN. That is the intent of the consortia language within the amendment; that is, to have the decision made at the local level to the greatest extent possible.

Senator BOSCHWITZ. The greatest extent possible goes as far as what Dan is talking about?

Mr. BERGAN. I am not sure. There was some concern about getting too specific in the charter, reauthorizing Eximbank's charter, as opposed to doing it through regulations and direction by the Congress to do so.

Senator BOSCHWITZ. We will push that, because that is just another way of ducking around things: Don't put it in the legislation; we will put it in the regulations. We will try to push him and try to be as specific as we can in the legislation.

Mr. OLSTEN. Rudy, for what it is worth, I would just like to echo some of Mr. Brian's thoughts on that.

Having been there and seen a little bit how it works, it is a very cumbersome process right now, both in terms of the Eximbank and the Department of Commerce. Loan programs go over to the Department of Commerce for its input, particularly on the major projects. If we were to heap on the Eximbank—it is a small organization, relatively—from a staffing standpoint, if we were to heap onto the Eximbank the decisionmaking on individual loans such as we are talking about here, that is not going to happen. I think the only way it will happen effectively is to give some authority, delegate that authority to the local level and trust the folks back at the States a little bit, and see how it works.

Senator BOSCHWITZ. Keep the Department of Commerce out of the action.

Mr. OLSTEN. You said it. [Laughter.]

Senator BOSCHWITZ. They can slow down anything.

Do any of the other panel members have any comments?

Ms. SPRADA. I have a question. In regard to one of your statements previously on requesting controls on the effectiveness of set-aside, what types of controls were you intending to be there? How would that be managed?

Mr. BERGAN. By "controls," do you mean reporting requirements?

Ms. SPRADA. Yes. I believe in the materials that you sent us from the Congressional Record there was a statement in there on the effectiveness of the controls. How would you know that the program has been effective?

Mr. BERGAN. That is the annual report requirement. I was misunderstanding "controls."

The suggestions you made were to be much more specific, I believe loans of under $500,000 and new-to-export businesses.

Ms. SPRADA. Yes. I guess I am looking at it from a business person's perspective. When you are trying to set up business funds, et cetera, you set your objectives before so that you know at the end whether or not you have been effective.

Mr. BERGAN. In other words, be more specific. Instead of the total number and dollar volume of loans made, break it down within categories, perhaps by industry and by size of loans, or previous experience?

Ms. SPRADA. Yes, some type of criteria. I guess I am asking for establishment of criteria.

Mr. OLSTEN. Tim, I think the language is broad in your amendment in the establishment of programs to allow that to happen, but, again, to get back to some earlier comments, it is effectively not going to happen unless, in establishing those programs, you get this input and you get folks not only from Congress and its oversight authority, but also the private sector and some of the State governments in establishing the specifics of the program.

Senator BOSCHWITZ. We can strengthen that part of the amendment. That is a good suggestion.

Do any other members of the panel have additional comments?

Let me ask if anyone in the audience, who has come to listen, has any comments or any statements that he or she wishes to make.

Mr. BILDSTEN. My name is Roger Bildsten, also from Levant Industrial Development.

I have one question. The bill, as I read it calls for the Eximbank to be "fully competitive," using those words. I was just wondering how you propose that Eximbank can compete against 8 percent or 7 percent or 6 percent money, how it can meet that charge of being fully competitive.

Senator BOSCHWITZ. That really is a question. As you know, the charter of the Bank has been twofold up to this point: Being competitive and also being self-sustaining, with the emphasis being on the latter. The emphasis is now being changed to the former, being competitive.

I indicated that it is going to be difficult because we are not going to go "on budget" with this loan program, and we will continue to finance it through the FFB.

I am not sure exactly how to answer that question.

Jann, do you have a response?

Mr. OLSTEN. I think it has been within the past year or year and a half that there has been a greater emphasis, although it may not be obvious yet from an exporter's standpoint, on being competitive rather than self-sustaining. In fact, I may be wrong, but haven't there been some appropriated funds for the Eximbank for the first time which allow it to lower its interest rate?

Mr. BERGAN. Not specifically that I am aware of. There have been proposals to that effect.

Mr. OLSTEN. Of course, what you are going to get into is a question of what is meant by competitive. Just being the devil's advocate a little bit, I do not think we are going to find that it can be effectively competitive or will be, at least, if it means a direct subsidy on the interest rates.

Senator BOSCHWITZ. As I think of it, we have appropriated funds in the Agriculture Committee to buy down interest rates.

Mr. OLSTEN. There was some activity within the past year, but I cannot recall specifically what it was, for interest rates through Eximbank.

Senator BOSCHWITZ. That would be a good way to obtain some leverage, because you would not have to bring all the loans onto the budget. You could appropriate an amount that would buy down the interest rate by 2 or 3 percentage points, as we have authorized in agriculture, and I believe now appropriated. That may be an area that we should pursue.

Just budgetarily, if the loan is made below the rate of interest that the Government can borrow, at which it can borrow, then the entire loan goes onto the budget. In the event that we just subsidize the interest rate, buy it down, then the only cost of buying it down would go onto the budget.

I will talk to Senators Heinz and Garn as to how they intend to achieve this competitive status that they talk about and the new emphasis that they give. Other than what we have discussed, I do not know exactly how it will be achieved.

Mr. OLSTEN. If I could just make a suggestion on that point, you might be better off leaving it just as competitive in the language of the amendment and fighting the battle of the subsidy once, hopefully, the amendment is passed. Once you get into a direct subsidy, you open a whole new can of worms.

Senator BOSCHWITZ. I quite agree with that, but I think we can have a colloquy on the Senate floor and ask the good Senators how they intend to make the Bank competitive in view of the fact that some organizations are loaning at rates lower than the FFB can borrow.

Do we have any other comments from anybody?

Yes? Please identify yourself.

Ms. HALPAUS. My name is Yvonne Halpaus from Control Trading Group in Minneapolis.

I believe what we should point out this morning is that those of us who have traveled extensively in sales and marketing worldwide have many times been approached in these countries saying, "If you really want to export to our country or if you want to sell in our market, you have to become a manufacturer in this market. It is better if you manufacture here. In addition, the advantage to manufacturing here is we have a much better export finance program, so you can export from our country worldwide." That is used extensively when you are overseas.

As a result, many companies, many U.S. and Minnesota companies, are shifting their manufacturing facilities to those countries where they find a local market as well as a good export financing program.

I do not believe any figures are available at this time that show the impact on the United States.

I was at a Central American conference in New Orleans 3 years ago where some of these countries freely stated, "Come and manufacture in our countries. We will give you excellent export financing, and you can export to a great market called the United States." That was freely stated.

I believe there is a lot more danger in the absence of a good export finance program than we realize.

Thank you.

Senator BOSCHWITZ. Thank you.

Do we have any other comments?

[No response.]

Senator BOSCHWITZ. I would like to thank the members of the panel as well as Dan Brian of Norwest Bank and Sue Halverson of the Minnesota Trade Office for coming here today.

We have received some valuable suggestions here. We will take them back and digest them and talk to our colleagues in the Senate about it to see how we can improve the reauthorization of Eximbank, and, how we can improve our amendment to that reauthorization.

The amendment that we propose, I believe it will be difficult to sustain the percentages.

Some of the other aspects that we have talked about this morning almost appear to be more vital to make the amendment and Eximbank meaningful to small business. Some of the other elements that we have talked about this morning might be somewhat easier to make part of the bill. Whether or not, once having made it part of the bill, it will be effectively reflected in regulations and in the way Eximbank personnel, the Commerce Department, or the SBA make it work, that is a different matter. However, we will also try to consider the legislation from those standpoints. I really stand ready to help you with respect to the SBA. As a member of the Small Business Committee, it would be not so difficult to do.

I would also be willing to help with respect to any other aspect of Government, making these programs more meaningful and making them more available to small business.

Getting back to the whole basis of this discussion, there is no question that much of the ingenuity of our society—business, invention, and development—comes from small business. If we are to close some of these figures that indicate such huge trade deficits, then it is important that we see that the Government plays an important role.

I thank you all for coming this morning. It has been most useful to me, and I hope to you. I think it will make a difference in the legislation that we come out with.

Thank you.

[Whereupon, at 11:30 a.m., the committee recessed, to reconvene at the call of the Chair.]

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